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**SPECIAL ANALYSIS F**

**FEDERAL CREDIT PROGRAMS**

**The Budget of the United States Government, 1983**

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**Note.—All years referred to are fiscal years, unless otherwise noted. Details in the tables, text, and charts of this booklet may not add to totals because of rounding.**

**OFFICE OF MANAGEMENT AND BUDGET  
EXECUTIVE OFFICE OF THE PRESIDENT**

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*Pr Ex 2. 8/5:*

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## **SPECIAL ANALYSIS F**

### **FEDERAL CREDIT PROGRAMS**

Federal and federally assisted credit programs play a significant role in the functioning of the Nation's economy and financial markets. This credit assistance is primarily in four forms: direct loans from the Federal Government, Federal guarantees of private lending, lending by privately owned Government-sponsored enterprises, and access to tax-exempt credit. Much like Federal expenditures on goods and services or transfer payments, credit programs change the allocation of resources and the distribution of income. But these programs are not without cost. Recent experience has shown that when used in excess these programs begin to preempt private sector investment resources, and this absorption of much needed capital has an inhibiting effect on productivity and economic growth. Moreover, Federal credit distorts the market's assessment of true risk and return.

An element of subsidy is involved in any Federal credit program, since assistance is given on terms or conditions more favorable than would have occurred in private capital markets. A subsidy is provided, in general, because the Federal Government accepts risks that lenders in private capital markets are unwilling to bear or would bear only at higher interest rates than the Federal Government charges. Because interest subsidies reduce the cost of borrowing to the recipient, they are equivalent to cash grants to the borrower. In a wide variety of instances, Federal assistance of comparable value can be provided either with cash payments, credit assistance, or tax incentives. The subsidy is most easily recognized when Federal credit assistance provides an interest rate lower than could be provided in private capital markets. The subsidy is less visible if the Federal credit assistance provides for longer maturities, higher loan-to-value ratios, or greater liquidity than would have been available in private capital markets.

Direct loans are payments of cash, secured by a promise to repay the Government. The promise to repay may be in the form of a mortgage, a bond, a debenture, or a promissory note. Loan guarantees occur when a Government agency enters into a firm commitment to use Government funds as necessary to repay a lender upon

default by the borrower.<sup>1</sup> The amount of the guarantee may be less than the full principal of the loan and may include the guarantee of interest. Loan insurance is a type of guarantee in which a Government agency operates a program of pooled risks, pledging the use of insurance premiums to secure a lender against default on the part of a borrower.<sup>2</sup> Tax-exempt bonds are obligations with tax exemption on the interest income they produce, which allows them to be sold at interest rates below those for taxable securities. The subsidy is the difference between the tax-exempt and taxable interest rates.

This special analysis compiles basic information on Government credit programs and plans over the budget period. It summarizes major trends in the credit activity of the Federal Government and Government-sponsored enterprises and presents the estimates of direct loans and guaranteed loans by major program groupings, agencies, and enterprises from 1981 to 1983.

Reporting on Federal credit activities in the budget has expanded considerably in recent years. Part 3 of the *Budget* contains aggregated data on the totals of the credit budget, covering all direct loan and loan guarantee programs. Part 5 of the *Budget* presents information about major credit programs in the context of meeting national needs. Part 5 also shows the lending activities of the Federal Financing Bank according to function. Part 6 examines the debt transactions of the Federal Government, the outlays of off-budget Federal entities, loan guarantees, and Government-sponsored enterprises. Part 7 describes the credit budget and its place in the budget process. The *Budget Appendix* shows details and descriptions of the lending activities of individual budget accounts.

### TRENDS AND DIRECTIONS

Table F-1 summarizes data on Federal participation in domestic credit markets during the last decade. It measures the volume of Federal and federally assisted credit relative to total lending and borrowing in U.S. credit markets by nonfinancial sectors.<sup>3</sup> This table uses two measures of Federal participation—lending (funds advanced) and borrowing (funds raised).

The total amount of funds advanced under Federal auspices has risen fourfold in the last decade, reaching \$86.5 billion in 1981 and

<sup>1</sup> A loan guarantee can be thought of as the action of attaching a Federal guarantee to a loan. A guaranteed loan refers to the loan, usually contracted in the private sector, with a Federal guarantee attached. In some cases, however, one Federal agency guarantees a loan, and another Federal agency makes the loan.

<sup>2</sup> For the remainder of this analysis, the term loan guarantees will include insurance. The Federal Government is, in essence, the co-signer of a federally-guaranteed loan.

<sup>3</sup> The Government-sponsored enterprises are financial intermediaries, whereas the data for total funds raised are defined as only including nonfinancial sectors. Financial institutions are excluded to avoid double counting. Nevertheless, the Government-sponsored enterprise borrowing, as well as Federal borrowing from the public and guaranteed loans, is properly compared with total funds raised. This is because the Government-sponsored enterprise borrowing stands as a proxy for the borrowing by nonfinancial sectors that is intermediated by the sponsored enterprises. The Federal assistance to Government-sponsored enterprises assists the ultimate non-financial borrowers whose loans are purchased or otherwise financed by the sponsored enterprises.

is estimated to reach \$113.9 billion in 1983. The Federal participation rate for total funds advanced in U.S. credit markets reached a high for this decade of 23.3% in 1980, falling only slightly, to 21.2%, in 1981.

The other measure of Federal participation is funds raised (borrowed) under Federal auspices, which includes funds raised for Federal and Government-sponsored credit programs as well as funds raised to finance the Federal deficit. This Federal participation rate is much more volatile, ranging from 13.0% to 40.6% of total borrowing over the past decade. The volatility is due primarily to swings in the budget deficit. This participation rate peaked in 1976.

Table F-1. FEDERAL PARTICIPATION IN DOMESTIC CREDIT MARKETS

(Dollars in billions)

|                                                                | Actual |       |       |       |       |       |       |       |       |       | Estimates        |                  |
|----------------------------------------------------------------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------------------|------------------|
|                                                                | 1972   | 1973  | 1974  | 1975  | 1976  | 1977  | 1978  | 1979  | 1980  | 1981  | 1982             | 1983             |
| <b>Total funds advanced in U.S. credit markets<sup>1</sup></b> | 151.9  | 198.5 | 186.7 | 174.4 | 241.8 | 310.8 | 378.9 | 412.9 | 342.5 | 407.8 | ( <sup>2</sup> ) | ( <sup>2</sup> ) |
| Advanced under Federal auspices                                | 22.0   | 26.1  | 25.5  | 27.0  | 26.9  | 36.7  | 58.4  | 72.9  | 79.9  | 86.5  | 114.9            | 113.9            |
| Direct loans:                                                  |        |       |       |       |       |       |       |       |       |       |                  |                  |
| On-budget                                                      | 3.0    | 0.9   | 3.5   | 5.8   | 4.2   | 1.1   | 2.6   | 6.0   | 9.5   | 5.2   | 4.5              | 1.9              |
| Off-budget                                                     |        | 0.1   | 0.8   | 7.0   | 6.7   | 2.6   | 9.0   | 13.6  | 14.7  | 26.9  | 16.4             | 12.3             |
| Guaranteed loans                                               | 18.9   | 16.6  | 10.3  | 8.6   | 11.1  | -0.1  | 13.5  | 13.4  | 31.6  | 28.0  | 44.0             | 46.6             |
| Government-sponsored enterprise loans                          | 0.1    | 8.5   | 11.2  | 5.6   | 4.9   | 3.1   | 11.7  | 25.2  | 24.1  | 32.4  | 50.1             | 53.1             |
| Federal participation rate (percent)                           | 14.5   | 13.1  | 13.7  | 15.5  | 11.1  | 10.3  | 11.8  | 17.7  | 23.3  | 21.2  | ( <sup>2</sup> ) | ( <sup>2</sup> ) |
| <b>Total funds raised in U.S. credit markets<sup>1</sup></b>   | 151.9  | 198.5 | 186.7 | 174.4 | 241.5 | 310.8 | 378.9 | 412.9 | 342.5 | 407.8 | ( <sup>2</sup> ) | ( <sup>2</sup> ) |
| Raised under Federal auspices                                  | 39.1   | 46.5  | 24.2  | 64.8  | 98.1  | 19.3  | 79.0  | 80.7  | 123.5 | 142.1 | 206.0            | 204.7            |
| Federal borrowing from public                                  | 19.4   | 19.3  | 3.0   | 50.9  | 82.9  | 18.0  | 53.5  | 59.1  | 70.5  | 79.3  | 115.4            | 108.0            |
| Borrowing for guaranteed loans                                 | 18.9   | 16.6  | 10.3  | 8.6   | 11.1  | -0.1  | 13.5  | 13.4  | 25.2  | 28.0  | 44.0             | 46.6             |
| Government-sponsored enterprise borrowing                      | 0.7    | 10.6  | 10.9  | 5.3   | 4.1   | 1.4   | 12.0  | 21.4  | 21.9  | 34.8  | 46.6             | 50.1             |
| Federal participation rate (percent)                           | 25.7   | 23.4  | 13.0  | 37.2  | 40.6  | 29.7  | 25.4  | 19.5  | 36.1  | 34.8  | ( <sup>2</sup> ) | ( <sup>2</sup> ) |

<sup>1</sup> Nonfinancial sector, excluding equities. Source: Federal Reserve Board Flow of Funds Accounts.<sup>2</sup> Not estimated.

Another form of Federal Government involvement in the credit market is the granting of tax exemption for the interest income on State and local government debt securities. This includes securities that finance both general government and private purpose securities, such as industrial development bonds. Tax exempt status induces purchasers of these securities to accept lower yields than they demand for taxable securities. In this way, State and local governments receive an interest subsidy, and the Federal Government forgoes an amount of tax revenues. Because of the interest subsidy and its effect on the allocation of credit towards State and local borrowers, this tax exemption has many of the characteristics of the forms of Federal participation in credit markets shown in Table F-1. It differs, however, in that the choice of borrowers is not governed by the regulations of a Federal or federally chartered entity. The only means of Federal control over this lending is revision of the U.S. tax code. Table F-1a supplements Table F-1 to show the growth of tax exempt credit, and how the Federal participation rates would change if tax exempt credit were included.

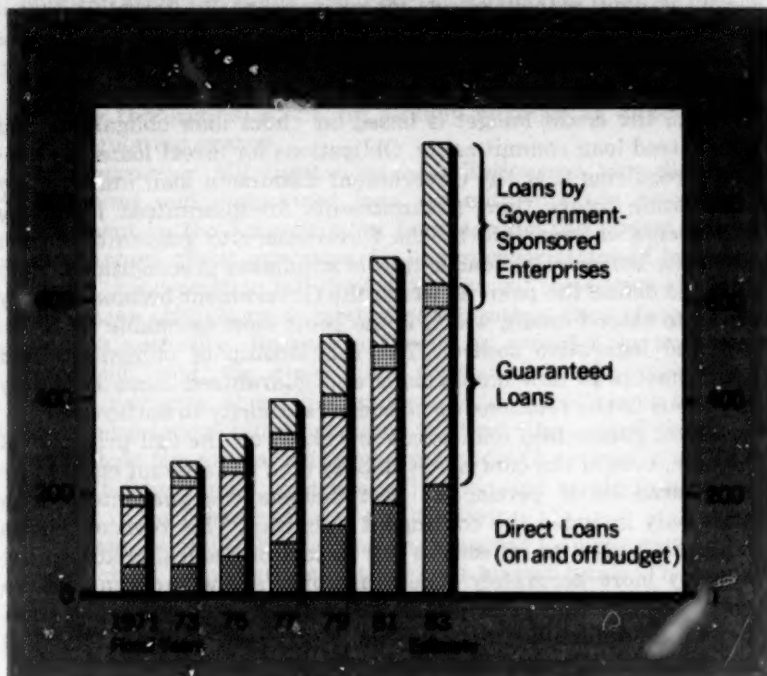
Table F-1a.—FEDERAL PARTICIPATION IN DOMESTIC CREDIT MARKETS, INCLUDING TAX EXEMPT CREDIT

(Dollars in billions)

|                                                                        | 1972 | 1973 | 1974 | 1975 | 1976  | 1977 | 1978  | 1979  | 1980  | 1981  | 1982             | 1983             |
|------------------------------------------------------------------------|------|------|------|------|-------|------|-------|-------|-------|-------|------------------|------------------|
| Tax exempt credit.....                                                 | 13.7 | 12.2 | 16.5 | 11.4 | 20.9  | 3.8  | 20.5  | 23.5  | 20.5  | 20.4  | 24.5             | ( <sup>1</sup> ) |
| Funds advanced under Federal auspices, plus tax exempt credit.....     | 35.7 | 38.3 | 42.0 | 38.4 | 47.8  | 10.5 | 81.9  | 93.4  | 100.2 | 111.0 | ( <sup>1</sup> ) | ( <sup>1</sup> ) |
| Federal participation rate, including tax exempt credit (percent)..... | 23.5 | 19.3 | 22.5 | 22.0 | 19.8  | 16.2 | 21.6  | 22.6  | 29.3  | 27.2  | ( <sup>1</sup> ) | ( <sup>1</sup> ) |
| Funds raised under Federal auspices, plus tax exempt credit.....       | 52.7 | 58.7 | 40.7 | 76.2 | 119.0 | 23.1 | 117.3 | 101.3 | 145.9 | 166.6 | ( <sup>1</sup> ) | ( <sup>1</sup> ) |
| Federal participation rate, including tax exempt credit (percent)..... | 34.7 | 29.6 | 21.8 | 43.7 | 49.2  | 35.6 | 31.0  | 24.5  | 42.0  | 40.8  | ( <sup>1</sup> ) | ( <sup>1</sup> ) |

<sup>1</sup> Not estimated.

The net funds advanced in a given year are simply the difference between the amount of loans outstanding at the beginning and at the end of that year. The accompanying chart shows the growth of Federal and federally-assisted credit outstanding in the last decade. Since 1971, the total amount of loans outstanding has risen by \$217 billion, to \$676 billion in 1981, an increase of over 300%.



### THE CREDIT BUDGET

Two years ago budgeting for Federal credit was significantly improved through the initiation of the credit budget. This framework has enabled the annual activity of many loan programs to be controlled for the first time, and has provided a means of making decisions on credit programs in the context of all Federal credit and other budget activity. The credit budget supplements the regular budget during the executive formulation and transmittal of the President's program and during subsequent congressional action. It achieves control over individual program levels through appropriation bill language limiting the gross amount of direct loan obligation and loan guarantee commitments to be extended.

The credit budget consists of all direct loan obligations and loan guarantee commitments of Federal agencies. It is based on four principal concepts, all of which are designed to present the total

amount of credit activity clearly and to facilitate legislative and administrative control.

First, the credit budget makes no distinction between on- and off-budget entities. All direct loan and loan guarantee programs of the Government are included.

Second, the credit budget totals are based on gross levels of credit activity, without offsets for repayments. By excluding repayments, the credit budget measures the current level of program activity, and thereby enables control to be based on new activity, over which the Government has discretion.

Third, the credit budget is based on direct loan obligations and guaranteed loan commitments. Obligations for direct loans are contracts requiring that the Government disburse a loan immediately or at some future time. Commitments for guaranteed loans are agreements entered into by the Government to guarantee a loan when the borrower or lender fulfills stipulated preconditions. Both concepts define the point at which the Government becomes legally bound to extend credit, which is the point most amenable to executive and legislative control. The relationship of obligations and commitments to new direct loans and guaranteed loans is loosely analogous to the relationship of budget authority to outlays.

Fourth, guaranteed loan totals are based on the full principal of the loan, even if the contingent liability (i.e., the amount covered by the guarantee) is partial. In past budgets the guaranteed loan totals only included the contingent liabilities. This revision allows the credit budget to reflect the full impact of Federal credit on the economy more accurately. There are only a few programs where less than the full principal is guaranteed. The following table shows the differences between the contingent liability and full principal in loan guarantees outstanding.

#### DIFFERENCE BETWEEN CONTINGENT LIABILITY AND FULL PRINCIPAL FOR GUARANTEED LOANS

(In millions of dollars)

|                                                    | 1981 actual | 1982 estimate | 1983 estimate |
|----------------------------------------------------|-------------|---------------|---------------|
| Veterans Administration mortgage insurance:        |             |               |               |
| Contingent liability.....                          | 48,758      | 54,609        | 61,359        |
| Full principal.....                                | 105,868     | 118,574       | 133,225       |
| Federal Housing Administration mortgage insurance: |             |               |               |
| Contingent liability.....                          | 131,989     | 148,208       | 168,131       |
| Full principal.....                                | 135,445     | 152,210       | 172,840       |
| All other loan guarantees programs:                |             |               |               |
| Contingent liability.....                          | 262,249     | 317,600       | 368,749       |
| Full principal.....                                | 264,092     | 319,732       | 370,989       |
| Total outstanding:                                 |             |               |               |
| Contingent liability.....                          | 442,996     | 520,417       | 598,239       |
| Full principal.....                                | 505,405     | 590,516       | 677,054       |

Some netting adjustments are required in calculating the credit budget totals to eliminate double-counting of loans involved in intragovernmental financing transactions. First, secondary guarantees, i.e. guarantees of loans that have a prior guarantee from another agency, are deducted from the gross guaranteed loan total. Second, guarantees by one agency of direct loans disbursed by another agency, usually the Federal Financing Bank (FFB), are deducted from the guaranteed loan total and shown only as direct loans. Third loan assets sold by agencies to the FFB, and guarantees of those loan assets, are not included in credit budget totals, because the original loans are already recorded as direct loans of the originating agency.

*Appropriation bill limitations.*—Limitations on new direct loan obligations and guaranteed loan commitments are proposed for enactment in the appropriation language for the budget accounts that support credit programs. Unlike appropriations of budget authority, appropriation bill limitations are not the source of authority to make obligations or commitments; rather, they place a ceiling on that authority. Because authority is provided in authorizing legislation, and, for direct loan programs, in appropriations of budget authority, these programs can extend credit even if there is no appropriation bill limitation. Without the appropriation bill limitations the annual activity of many credit programs would not be limited by annual congressional action and would in no case be limited in the context of total credit activity.

Appropriation bill limitations are proposed for programs amounting to about three-fourths of the credit budget totals. The remainder are programs for which a limitation on annual activity is deemed unsuitable. Several kinds of programs are exempt from appropriation limitations. For these programs, control is generally exercised through authorizing legislation.

The first type of exemption is for clear entitlements to qualified applicants, such as veterans mortgage guarantees. The second are programs that provide insurance against unforeseen circumstance, such as insurance of bank deposits against bank failure. These two exemptions preclude the appearance of control where none can exist without changing the basic nature of the programs. The programs in these two categories are similar to those budgetary activities considered relatively uncontrollable, many of which are also not acted on in annual appropriations bills.

The third exemption is for intragovernmental financing transactions, such as guarantees of certificates of beneficial ownership issued by the FmHA and all activity of the Federal Financing Bank. Since the loans they finance are controlled through annual appropriation bill limitations, they need not be limited at the financing stage.

Fourth, direct loans to cover claims on defaulted guaranteed loans are exempted for all credit programs. Payment of these default claims is mandatory.

Several other programs are exempted because of circumstances unique to the program itself. Table F-2 provides a complete listing of programs proposed to be exempt in the 1983 credit budget.

Table F-2.—CREDIT BUDGET PROGRAMS EXEMPT FROM APPROPRIATION BILL LIMITATIONS

(In millions of dollars)

|                                                        | Direct loan obligations |                  |                  | Guaranteed loan commitments |                  |                  |
|--------------------------------------------------------|-------------------------|------------------|------------------|-----------------------------|------------------|------------------|
|                                                        | 1961<br>actual          | 1962<br>estimate | 1963<br>estimate | 1961<br>actual              | 1962<br>estimate | 1963<br>estimate |
| Programs under appropriations control                  | 16,649                  | 16,344           | 14,812           | 77,582                      | 93,783           | 93,073           |
| Programs exempt from appropriations control:           |                         |                  |                  |                             |                  |                  |
| Entitlement and mandatory programs:                    |                         |                  |                  |                             |                  |                  |
| CCC price supports                                     | 5,849                   | 8,554            | 6,600            |                             |                  |                  |
| Public housing                                         | 2,196                   | 1,500            | 1,000            | 19,343                      | 18,293           | 19,771           |
| Veterans mortgage insurance                            |                         |                  |                  | 11,719                      | 19,542           | 22,451           |
| Other veterans program                                 | 248                     | 120              | 154              |                             |                  |                  |
| Guaranteed student loans                               |                         |                  |                  | 7,712                       | 9,500            | 10,300           |
| Insurance programs:                                    |                         |                  |                  |                             |                  |                  |
| Credit union share insurance                           | 8                       | 6                | 5                | 121                         | 100              | 75               |
| Pension Benefit Guaranty Corporation                   | *                       | 3                | 3                |                             |                  |                  |
| Diplomatic emergencies                                 | 1                       | 1                | 1                |                             |                  |                  |
| Other policy exemptions:                               |                         |                  |                  |                             |                  |                  |
| Public Law 480 export sales                            | 821                     | 754              | 767              |                             |                  |                  |
| CCC export credit                                      |                         |                  |                  | 2,815                       | 2,500            | 2,500            |
| Federal Highway Administration                         | 13                      | 19               | 32               |                             |                  |                  |
| College housing loans                                  | 71                      | 344              | 100              |                             |                  |                  |
| Tennessee Valley Authority                             | 102                     | 83               | 80               | 3,624                       | 4,285            | 5,289            |
| NASA satellite leases                                  |                         |                  |                  | 111                         | 206              | 171              |
| Financing transactions:                                |                         |                  |                  |                             |                  |                  |
| Guarantees and repurchases of CDO's (FmHA)             | 4,516                   | 7,652            | 6,749            | 14,636                      | 12,550           | 7,824            |
| Federal Financing Bank                                 | 30,269                  | 28,377           | 24,701           |                             |                  |                  |
| Defaulting guaranteed loans:                           |                         |                  |                  |                             |                  |                  |
| Foreign military sales credit                          | 184                     | 170              | 190              |                             |                  |                  |
| FHA mortgage insurance                                 | 400                     | 307              | 266              |                             |                  |                  |
| Small Business Administration                          | 871                     | 712              | 513              |                             |                  |                  |
| Guaranteed student loans                               | 238                     | 410              | 548              |                             |                  |                  |
| VA mortgage insurance                                  | 738                     | 756              | 780              |                             |                  |                  |
| All other                                              | 55                      | 82               | 47               |                             |                  |                  |
| Programs previously exempt from appropriations control | 9,193                   | 3,329            |                  | 15,816                      | 5,371            |                  |
| Subtotal, exempt programs                              | 55,753                  | 53,180           | 42,527           | 75,147                      | 72,347           | 68,381           |
| Less: Deductions to eliminate double counting *        | 15,208                  | 13,173           | 8,346            | 76,214                      | 79,065           | 63,100           |
| Total, credit budget                                   | 57,194                  | 56,351           | 48,994           | 76,515                      | 87,065           | 98,354           |

## DIRECT LOANS

Direct loans are made by both on-budget agencies and off-budget Federal entities. They are financed from a variety of sources including taxation, borrowing, and loan repayments.<sup>4</sup> (For a discussion of off-budget Federal entities, see Part 6 of the *Budget*.) Table F-3 shows loan activity by the headings "obligations" and "loans". Obligations are firm written agreements by the Government to extend direct loans. Obligations in a given year need not always result in an equal volume of new direct loans since the conversion of obligations to loans can take time, and some prospective borrow-

\* Taxation and borrowing are in many cases indistinguishable means of funds for a specific program. However, the treatment of loan repayments can differ from program to program.

ers to whom obligations are made do not convert the obligations into borrowing.

Loans, in turn, are the loans actually made in the specified year. New direct loans, shown in the top line of the right hand column for each program, are the sum of disbursements to make new loans and disbursements to pay guarantee claims.<sup>5</sup> Net outlays are equal to the sum of all transactions that alter the column of loans outstanding, including new loans less repayments<sup>6</sup> of loans, liquidation of collateral, loan writeoffs, and sales of loan assets. Net outlays of direct loans are also equal to the difference between the volume of loans outstanding at the end of the year and the volume outstanding at the beginning of the year.<sup>7</sup>

Net outlays of direct loans by on-budget Federal agencies are counted as budget outlays. Net outlays of direct loans by off-budget Federal entities, although similar to on-budget net outlays, are excluded by law from the budget totals.

Net outlays of direct loans on-budget decreased by \$4.3 billion from 1980 to 1981 to \$5.2 billion, and are expected to fall still farther, to \$1.9 billion by 1983. The decreases are the result of a general reduction in lending activity, particularly by the Small Business Administration, whose direct business loan program is proposed to be ended, and by the Government National Mortgage Association, whose mortgage purchase activities will end in 1982. Another contribution to low net loan outlays in 1983 results from the sale of a large amount of housing loan assets to the public by the Veterans Administration and the Department of Housing and Urban Development.

<sup>5</sup> Upon default of a loan guarantee, the Government assumes ownership of the guaranteed loan. The lender is reimbursed for the amount of the guarantee, while the borrower owes the Federal Government directly rather than the original lender. Claims paid under insurance or guarantee programs are considered as direct loans until the acquired loans or collateral are paid off or liquidated. Proceeds of liquidation are considered repayments and realized losses are writeoffs.

<sup>6</sup> Loan repayments and receipts from the sale of loans are generally netted from gross loan disbursements in determining net loan outlays, rather than being counted as budget receipts.

<sup>7</sup> The volume of loans outstanding is a stock concept referring to the total of loans that have ever been made, less principal repaid to date, loans written off and receipts from the sale of loans. Net loan outlays is a flow concept, the difference in loans outstanding at the beginning and at the end of a particular year.

Table F-3. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)

| Agency or program                    | Obligations    |                  |                  | Loans          |                  |                  |
|--------------------------------------|----------------|------------------|------------------|----------------|------------------|------------------|
|                                      | 1981<br>actual | 1982<br>estimate | 1983<br>estimate | 1981<br>actual | 1982<br>estimate | 1983<br>estimate |
| <b>ON-BUDGET AGENCIES</b>            |                |                  |                  |                |                  |                  |
| Funds Appropriated to the President: |                |                  |                  |                |                  |                  |
| International Security Assistance:   |                |                  |                  |                |                  |                  |
| Economic Support Fund                | 274            | 216              | 895              | 691            | 737              | 1,100            |
| New transactions                     |                |                  |                  | 512            | 1,049            | 1,049            |
| Net outlays                          |                |                  |                  | 4,553          | 5,247            | 6,296            |
| Outstandings                         |                |                  |                  |                |                  |                  |
| Foreign Military Sales Credit        | 664            | 920              | 1,919            | 671            | 925              | 1,093            |
| New transactions                     |                |                  |                  | -130           | -172             | 231              |
| Net outlays                          |                |                  |                  | 694            | 522              | 753              |
| Outstandings <sup>a</sup>            |                |                  |                  |                |                  |                  |
| Other programs                       |                |                  |                  | *              | 5                | 5                |
| New transactions                     |                |                  |                  | *              | 5                | 5                |
| Net outlays                          |                |                  |                  | 40             | 45               | 50               |
| Outstandings                         |                |                  |                  |                |                  |                  |
| International development assistance | 401            | 403              | 403              | 429            | 379              | 384              |
| New transactions                     |                |                  |                  | 166            | 66               | 25               |
| Net outlays                          |                |                  |                  | 11,874         | 11,940           | 11,966           |
| Outstandings                         |                |                  |                  |                |                  |                  |
| Agriculture:                         |                |                  |                  |                |                  |                  |
| Farmers Home Administration:         |                |                  |                  |                |                  |                  |
| Agricultural Credit                  | 9,229          | 8,196            | 7,218            | 9,035          | 8,369            | 7,269            |
| New transactions                     |                |                  |                  | -898           | -800             |                  |
| Net outlays                          |                |                  |                  | 1,036          | 236              | 236              |
| Outstandings                         |                |                  |                  |                |                  |                  |
| Rural Housing                        | 6,079          | 6,369            | 3,895            | 5,906          | 6,304            | 4,782            |
| New transactions                     |                |                  |                  | -1,000         | -424             | -12              |
| Net outlays                          |                |                  |                  | 825            | 401              | 388              |
| Outstandings                         |                |                  |                  |                |                  |                  |

Table F-3. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued

| Agency or program                               | Obligations    |                  |                  | Loans          |                  |                  |
|-------------------------------------------------|----------------|------------------|------------------|----------------|------------------|------------------|
|                                                 | 1981<br>actual | 1982<br>estimate | 1983<br>estimate | 1981<br>actual | 1982<br>estimate | 1983<br>estimate |
| Rural Development                               |                |                  |                  |                |                  |                  |
| New transactions                                | 1,669          | 1,046            | 948              | 1,578          | 1,560            | 1,303            |
| Net outlays                                     |                |                  |                  | -50            | -43              | 2                |
| Outstandings                                    |                |                  |                  | 285            | 242              | 244              |
| Commodity Credit Corporation                    |                |                  |                  |                |                  |                  |
| New transactions                                | 5,872          | 8,600            | 6,600            | 5,861          | 8,720            | 6,600            |
| Net outlays                                     |                |                  |                  | -920           | 1,709            | -6               |
| Outstandings                                    |                |                  |                  | 6,160          | 7,869            | 7,863            |
| Public Law 480 long-term export credits         |                |                  |                  |                |                  |                  |
| New transactions                                | 821            | 754              | 767              | 781            | 754              | 767              |
| Net outlays                                     |                |                  |                  | 544            | 533              | 520              |
| Outstandings                                    |                |                  |                  | 7,718          | 8,250            | 8,770            |
| Rural Electrification Administration            |                |                  |                  |                |                  |                  |
| New transactions                                | 17             |                  |                  | 3              | 5                | 10               |
| Net outlays                                     |                |                  |                  | 3              | 3                | 10               |
| Outstandings                                    |                |                  |                  | 3              | 8                | 18               |
| Commerce:                                       |                |                  |                  |                |                  |                  |
| Economic Development Administration             |                |                  |                  |                |                  |                  |
| New transactions                                | 55             | 30               |                  | 137            | 141              | 143              |
| Net outlays                                     |                |                  |                  | 72             | 78               | 79               |
| Outstandings                                    |                |                  |                  | 996            | 1,073            | 1,152            |
| National Oceanic and Atmospheric Administration |                |                  |                  |                |                  |                  |
| New transactions                                | 11             | 1                |                  | 38             | 31               | 15               |
| Net outlays                                     |                |                  |                  | 38             | 28               | 15               |
| Outstandings                                    |                |                  |                  | 71             | 99               | 114              |
| Health and Human Services:                      |                |                  |                  |                |                  |                  |
| Health Resources Administration                 |                |                  |                  |                |                  |                  |
| New transactions                                | 30             |                  |                  | 27             | 20               | 5                |
| Net outlays                                     |                |                  |                  | 13             | 12               | -3               |
| Outstandings                                    |                |                  |                  | 848            | 860              | 857              |

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|                                               |                       |       |       |       |       |       |        |
|-----------------------------------------------|-----------------------|-------|-------|-------|-------|-------|--------|
| Other Health programs.....                    | New transactions..... | 33    | 54    | 40    | 45    | 35    | 31     |
|                                               | Net outlays.....      |       |       |       | 25    | -17   | 4      |
| Housing and Urban Development:                | Outstandings.....     |       |       |       | 88    | 72    | 76     |
| Low-rent public housing.....                  | New transactions..... | 2,196 | 1,500 | 1,000 | 2,196 | 1,500 | 1,000  |
|                                               | Net outlays.....      |       |       |       | 90    | -25   |        |
|                                               | Outstandings.....     |       |       |       | 184   | 159   | 159    |
| Other HUD programs.....                       | New transactions..... | 1,398 | 1,273 | 766   | 1,496 | 1,288 | 1,163  |
|                                               | Net outlays.....      |       |       |       | 2,005 | 730   | -643   |
|                                               | Outstandings.....     |       |       |       | 8,479 | 9,209 | 8,555  |
| Government National Mortgage Association..... | New transactions..... | 1,836 | 1,993 | 6     | 2,172 | 2,124 | 2,023  |
|                                               | Net outlays.....      |       |       |       | 4     | -516  | -642   |
|                                               | Outstandings.....     |       |       |       | 4,333 | 3,817 | 3,175  |
| Interior.....                                 | New transactions..... | 38    | 83    | 123   | 40    | 82    | 123    |
|                                               | Net outlays.....      |       |       |       | 22    | 43    | 101    |
|                                               | Outstandings.....     |       |       |       | 442   | 485   | 586    |
| Transportation:                               | New transactions..... | 39    | 144   | 2     | 143   | 112   | 76     |
| Railroad programs.....                        | Net outlays.....      |       |       |       | 143   | 112   | 76     |
|                                               | Outstandings.....     |       |       |       | 514   | 626   | 702    |
| Other.....                                    | New transactions..... | 37    | 44    | 57    | 43    | 89    | 57     |
|                                               | Net outlays.....      |       |       |       | 35    | 70    | 50     |
|                                               | Outstanding.....      |       |       |       | 403   | 473   | 523    |
| Treasury:                                     | New transactions..... | 138   | 344   | 100   | 109   | 114   | 114    |
| Education programs.....                       | Net outlays.....      |       |       |       | 9     | 18    | 17     |
|                                               | Outstandings.....     |       |       |       | 3,415 | 3,433 | 3,450  |
| Veterans Administration:                      | New transactions..... | 738   | 757   | 781   | 742   | 758   | 783    |
| Housing loans and default claims.....         | Net outlays.....      |       |       |       | 124   | -33   | -1,048 |
|                                               |                       |       |       |       | 1,846 | 1,813 |        |

Table F-3 DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued

| Agency or program                               | Disbursements  |                  |                  | Receipts       |                  |                  |
|-------------------------------------------------|----------------|------------------|------------------|----------------|------------------|------------------|
|                                                 | 1981<br>actual | 1982<br>estimate | 1983<br>estimate | 1981<br>actual | 1982<br>estimate | 1983<br>estimate |
| Insurance policy and other loans                | 248            | 120              | 155              | 248            | 120              | 155              |
| New transactions                                |                |                  |                  | 92             | 8                | 24               |
| Net receipts                                    |                |                  |                  | 1,485          | 1,477            | 1,500            |
| District of Columbia                            | 214            | 225              | 145              | 214            | 225              | 145              |
| New transactions                                |                |                  |                  | 107            | 117              | 116              |
| Net receipts                                    |                |                  |                  | 1,507          | 1,604            | 1,799            |
| Export-Import Bank                              | 5,431          | 4,400            | 3,830            | 3,512          | 3,603            | 3,834            |
| New transactions                                |                |                  |                  | 2,037          | 1,721            | 1,600            |
| Net receipts                                    |                |                  |                  | 15,402         | 17,523           | 19,203           |
| Federal Deposit Insurance Corporation           |                |                  |                  | -45            | -22              | -21              |
| New transactions                                |                |                  |                  | 431            | 409              | 388              |
| Federal Home Loan Bank Board                    | 266            |                  |                  | 266            |                  |                  |
| New transactions                                |                |                  |                  | 187            | 74               | 75               |
| Net receipts                                    |                |                  |                  | 844            | 770              | 805              |
| Foundation for Education Assistance             | 421            | 509              | 548              | 404            | 621              | 729              |
| New transactions                                |                |                  |                  | 397            | 537              | 604              |
| Net receipts                                    |                |                  |                  | 5,608          | 6,225            | 6,969            |
| National Consumer Cooperative Bank <sup>a</sup> | 130            | 11               |                  | 43             | 11               |                  |
| New transactions                                |                |                  |                  | 32             | 32               |                  |
| Net receipts                                    |                |                  |                  | 59             | 59               |                  |

## SPECIAL ANALYSIS V

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|                                                         |                      |        |        |        |        |        |
|---------------------------------------------------------|----------------------|--------|--------|--------|--------|--------|
| National Credit Union Administration.....               | New Initiatives..... | 75     | 336    | 478    | 336    | 478    |
|                                                         | Revolving.....       |        | 1      |        | 123    | 119    |
|                                                         | Operating.....       |        | 116    |        | 239    | 368    |
| Small Business Administration:                          |                      |        |        |        |        |        |
| Business and investment loans.....                      | New Initiatives..... | 871    | 712    | 554    | 705    | 501    |
|                                                         | Revolving.....       |        |        |        | 158    | -78    |
|                                                         | Operating.....       |        |        |        | 2,703  | 2,707  |
| Disaster loans.....                                     | New Initiatives..... | 1,522  | 640    | 440    | 590    | 375    |
|                                                         | Revolving.....       |        |        |        | -144   | -414   |
|                                                         | Operating.....       |        |        |        | 6,444  | 5,306  |
| Tennessee Valley Authority.....                         | New Initiatives..... | 102    | 83     | 80     | 83     | 80     |
|                                                         | Revolving.....       |        |        |        | 59     | 59     |
|                                                         | Operating.....       |        |        |        | 198    | 315    |
| United States Railway Association (Omni).....           | New Initiatives..... |        |        |        |        |        |
|                                                         | Revolving.....       |        |        |        | 1,000  | 1,000  |
|                                                         | Operating.....       |        |        |        |        |        |
| Other agencies and programs.....                        | New Initiatives..... | 4      | 18     | 4      | 5      | 5      |
|                                                         | Revolving.....       |        |        |        | -14    | -25    |
|                                                         | Operating.....       |        |        |        | 145    | 75     |
| Subtotal, on-budget agencies.....                       | New Initiatives..... | 40,857 | 39,861 | 31,754 | 39,630 | 35,205 |
|                                                         | Revolving.....       |        |        |        | 40,360 |        |
|                                                         | Operating.....       |        |        |        | 5,153  | 7,867  |
|                                                         |                      |        |        |        | 91,297 | 97,581 |
| OFF-BUDGET FEDERAL ENTITIES                             |                      |        |        |        |        |        |
| Rural Electrification and telephone revolving fund..... | New Initiatives..... | 1,100  | 1,100  | 700    | 1,089  | 1,000  |
|                                                         | Revolving.....       |        |        |        | 43     | 77     |
|                                                         | Operating.....       |        |        |        | 9,529  | 9,715  |
| Rural Telephone Bank.....                               | New Initiatives..... | 160    | 185    | 185    | 185    | 185    |

Table F-3. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued

| Agency or program                                                    | Obligations      |                  |                  |                | Liabilities      |                  |  |
|----------------------------------------------------------------------|------------------|------------------|------------------|----------------|------------------|------------------|--|
|                                                                      | 1981<br>actual   | 1982<br>estimate | 1983<br>estimate | 1981<br>actual | 1982<br>estimate | 1983<br>estimate |  |
| Federal Financing Bank                                               | Net outlays      |                  |                  | 140            | 175              | 175              |  |
|                                                                      | Outstanding      |                  |                  | 1,871          | 1,246            | 1,415            |  |
|                                                                      | Net transactions | 38,268           | 28,377           | 30,269         | 28,377           | 28,701           |  |
|                                                                      | Net outlays      |                  |                  | 20,956         | 16,217           | 12,071           |  |
| United States Railway Association                                    | Outstanding      |                  |                  | 82,911         | 98,127           | 107,158          |  |
|                                                                      | Net transactions | 17               | 1                | 17             | 1                |                  |  |
|                                                                      | Net outlays      |                  |                  | -220           | -106             | -27              |  |
|                                                                      | Outstanding      |                  |                  | 164            | 58               | 37               |  |
| Subtotal, off-budget Federal entities                                | Net transactions | 31,545           | 29,663           | 25,586         | 31,523           | 29,688           |  |
|                                                                      | Net outlays      |                  |                  |                |                  | 75,806           |  |
|                                                                      | Outstanding      |                  |                  | 20,920         | 16,387           | 12,286           |  |
|                                                                      | Net transactions | 15,208           | 13,173           | 8,346          | 93,675           | 110,072          |  |
| Less loan asset purchases by the Federal Financing Bank <sup>a</sup> | Net outlays      |                  |                  |                |                  | 13,173           |  |
|                                                                      | Outstanding      |                  |                  |                |                  | 15,208           |  |
|                                                                      | Net transactions | 57,194           | 56,351           | 48,994         | 55,945           | 56,875           |  |
|                                                                      | Net outlays      |                  |                  |                |                  | 20,837           |  |
| Grand total, net direct loans                                        | Outstanding      |                  |                  | 184,962        | 205,794          | 219,545          |  |

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### LOAN ASSET SALES AND OTHER LOAN OFFSETS

Loan asset sales are sales of direct loans to the public or the FFB. In most cases, the agency selling the loan also guarantees it. In the unified and credit budgets, loan asset sales are treated as offsets to agency outlays, which is the same way that loan repayments are treated. Loan asset sales reduce the agency's outlay totals, and if the agency is on-budget, reduce total budget outlays. After the sale, the loan is held privately or by a Federal account other than the original seller (usually an off-budget Federal entity), but the Federal Government continues to bear the risk of default of the borrower.

Traditionally, loan asset sales meant selling of title to the loans to the public. However, since the creation of the FFB, most loan assets are sold by on-budget accounts to the off-budget FFB, converting them from direct loans on-budget to loans off-budget.

The largest volume of loan assets are certificates of beneficial ownership (CBO's) sold by the Farmers Home Administration and Rural Electrification Administration to support their direct loan programs. CBO's are backed by pools of direct loans, rather than by an individual loan. When a CBO is sold, the ownership of the specific loans is retained by the originating agency, and the agency continues to incur the servicing costs and to fully assume the risk of default on the loans. The President's Commission on Budget Concepts recommended that the sale of such securities be treated as borrowing, arguing that, as a means of financing outlays, there is no difference in substance between an agency selling securities labeled "certificates of beneficial ownership," the same agency selling securities labeled "debt" and the Treasury selling securities labeled "debt." In certain cases, however, legislation requires that it be treated instead as the sale of loan assets.

Another form of loan asset sale occurs when direct loans have been acquired through payments on guarantee claims upon default, or through sale of collateral and are subsequently sold to the public, usually with guarantees attached.

The final form of loan asset transaction is the "tandem" plan of the Government National Mortgage Association (GNMA). Under this program designated types of mortgages are purchased at below-market yields and then resold to the private market at prices sufficiently low to afford a normal return to investors. This program is being phased out during 1982.

Table F-4 shows all loan offsets—repayments, other capital recoveries, asset sales, non-cash adjustments or other offsets that are counted against the volume of new loans extended to derive net loan outlays. Table F-3 displays new direct loan transactions and net direct loan outlays; table F-4 provides a four-way distribution

of those loan offsets that are the difference between these two measures of direct lending. The four-way split is as follows:

- Loan asset sales to the public result in a flow of cash from the public to the agency in exchange for title to direct loans. In most cases this form of transaction converts direct loans into privately held notes guaranteed by the Government.
- Loan asset sales to the FFB shift title to direct loans (or CBO's) from the agency to the FFB. For an on-budget agency, this reduces the recorded budget outlays by the amount of the sale but raises the off-budget outlays of the FFB by an equal amount. For an off-budget entity, sales to the FFB reduce the recorded off-budget outlays of the selling entity and raises the off-budget outlays of the FFB by an equal amount. All loans purchased by the FFB are fully guaranteed by some other Federal agency.
- Repayments, prepayments, and other capital recoveries are cash paid to the Government, to draw down loan principal and thereby reduce indebtedness. They are counted as a reduction in direct loans outstanding.
- Non-cash adjustments are non-cash accounting entries to take cognizance of losses, write-offs, or other adjustments in cases in which the recorded value of the loans is greater than the amount of money collected or collectable on the loans.

Table F-4. LOAN ASSETS SALES, LOAN REPAYMENTS, AND OTHER LOAN OFFSETS (in millions of dollars)

| Agency or program                     | Transactions with | Loan assets sales |           | Repayments and adjustments |             |           |           |
|---------------------------------------|-------------------|-------------------|-----------|----------------------------|-------------|-----------|-----------|
|                                       |                   | 1981 actual       | 1982 est. | 1983 est.                  | 1981 actual | 1982 est. | 1983 est. |
| <b>ON-BUDGET AGENCIES</b>             |                   |                   |           |                            |             |           |           |
| Agriculture:                          |                   |                   |           |                            |             |           |           |
| Commodity Credit Corporation          | the Public        |                   |           |                            | 6,998       | 7,196     | 6,826     |
|                                       | the FFB           |                   |           |                            | 20          | 35        | 28        |
| Agricultural credit insurance fund    | the Public        |                   |           |                            | 3,181       | 3,824     | 4,228     |
|                                       | the FFB           | 6,815             | 5,391     | 3,071                      | -62         | -46       | -30       |
| Rural housing insurance fund          | the Public        | 31                | 29        | 20                         | 996         | 1,283     | 1,521     |
|                                       | the FFB           | 6,045             | 5,619     | 3,537                      | -166        | -203      | -284      |
| Rural development insurance fund      | the Public        |                   |           |                            | 78          | 93        | 107       |
|                                       | the FFB           | 1,650             | 1,511     | 1,196                      | *           | -1        | -2        |
| Health and Human Services:            |                   |                   |           |                            |             |           |           |
| Health maintenance organization loans | the Public        | 3                 |           | 8                          |             | 2         | *         |
|                                       | the FFB           | 15                | 28        | 16                         |             |           |           |
| Housing and Urban Development:        |                   |                   |           |                            |             |           |           |
| Federal Housing Administration fund   | the Public        |                   |           |                            | 57          | 126       | 180       |
|                                       | the FFB           |                   | 81        | 124                        | -750        | 212       | 250       |
| Other housing programs                | the Public        |                   |           |                            | 2,262       | 1,662     | 1,096     |
|                                       | the FFB           |                   |           | 544                        | 27          | 2         | 612       |
| Veterans Administration:              |                   |                   |           |                            |             |           |           |
| Direct loan revolving fund            | the Public        |                   |           |                            | 50          | 50        | 279       |
|                                       | the FFB           |                   |           |                            | *           | *         | *         |
| Loan guarantee revolving fund         | the Public        |                   |           |                            | 417         | 702       | 1,514     |
|                                       | the FFB           |                   |           |                            | 151         | 39        | 39        |
| Export-Import Bank                    | the Public        |                   |           |                            | 1,475       | 1,882     | 2,154     |
|                                       | the FFB           |                   |           |                            |             |           |           |
| Foundation for Education Assistance   | the Public        |                   |           |                            | 85          | 84        | 90        |
|                                       | the FFB           |                   |           |                            | 2           |           |           |
| Small Business Administration         | the Public        |                   |           |                            | 733         | 986       | 1,098     |
|                                       | the FFB           |                   |           |                            | 259         | 296       | 316       |
| Other agencies and programs           | the Public        | 11                | 6         | 2                          | 1,290       | 1,558     | 1,650     |

Table F-4. LOAN ASSETS SALES, LOAN REPAYMENTS, AND OTHER LOAN OFFSETS (in millions of dollars)—Continued

| Agency or program                                                           | Transactions with | Loan assets sales |           |           | Repayments and adjustments |           |           |
|-----------------------------------------------------------------------------|-------------------|-------------------|-----------|-----------|----------------------------|-----------|-----------|
|                                                                             |                   | 1981 actual       | 1982 est. | 1983 est. | 1981 actual                | 1982 est. | 1983 est. |
| Subtotal, excluding tandem plans <sup>a</sup>                               | the FFB           |                   |           |           | 662                        | 860       | 508       |
|                                                                             | the Public        | 45                | 116       | 698       | 17,621                     | 19,447    | 20,742    |
|                                                                             | the FFB           | 14,525            | 12,550    | 7,821     | 143                        | 1,193     | 1,438     |
|                                                                             | the Public        |                   |           |           |                            |           |           |
| Housing and Urban Development (GNMA):<br>Tandem plan sales—FHA/VA mortgages | the FFB           | 1,170             | 1,401     | 1,413     | 126                        | 120       | 100       |
|                                                                             | the Public        |                   |           |           | 849                        | 1,099     | 1,135     |
|                                                                             | the FFB           | 1,216             | 1,517     | 2,111     | 17,747                     | 19,567    | 20,842    |
|                                                                             | the Public        |                   |           |           |                            |           |           |
| Subtotal, with tandem plan                                                  | the FFB           | 14,525            | 12,550    | 7,821     | 991                        | 2,292     | 2,572     |
|                                                                             | the Public        |                   |           |           |                            |           |           |
|                                                                             | the FFB           |                   |           |           |                            |           |           |
|                                                                             | the Public        |                   |           |           |                            |           |           |
| <b>OFF-BUDGET FEDERAL ENTITIES</b>                                          |                   |                   |           |           |                            |           |           |
| Rural electrification and telephone revolving fund                          | the Public        |                   |           |           | 363                        | 390       | 403       |
|                                                                             | the FFB           | 683               | 623       | 525       |                            |           |           |
|                                                                             | the Public        |                   |           |           | 9,557                      | 12,278    | 12,663    |
|                                                                             | the FFB           |                   |           |           |                            |           |           |
| Other                                                                       | the Public        |                   |           |           |                            |           |           |
|                                                                             | the FFB           |                   |           |           |                            |           |           |
|                                                                             | the Public        |                   |           |           |                            |           |           |
|                                                                             | the FFB           |                   |           |           |                            |           |           |
| Subtotal, off-budget Federal entities                                       | the FFB           | 683               | 623       | 525       | 9,920                      | 12,668    | 13,066    |
|                                                                             | the Public        |                   |           |           |                            |           |           |
|                                                                             | the FFB           |                   |           |           |                            |           |           |
|                                                                             | the Public        |                   |           |           |                            |           |           |
| Grand Total                                                                 | the FFB           | 15,208            | 13,173    | 8,346     | 27,667                     | 32,235    | 33,908    |
|                                                                             | the Public        |                   |           |           | 991                        | 2,292     | 2,572     |
|                                                                             | the FFB           |                   |           |           |                            |           |           |
|                                                                             | the Public        |                   |           |           |                            |           |           |

<sup>a</sup> All loans sold, except conventional tandem plan sales, are guaranteed upon sale and reflected in the guaranteed loan totals in Table F-5.<sup>b</sup> The Public includes Government-sponsored enterprises such as FNMAL and FHLB, which are among the principal purchasers of HUD and VA mortgages.<sup>c</sup> See Table F-4 for detail of FFB purchases.<sup>d</sup> Includes prepayments and other capital recoveries.

### THE FEDERAL FINANCING BANK

The Federal Financing Bank began operations in May 1974 and has been a significant factor in financing Federal credit activities. The bank is administered by the Treasury Department. Its transactions are excluded by law from the budget totals. Hence, its lending transactions are not counted as budget outlays, although it finances its operations through borrowing by the Treasury.

The FFB was designed to serve as a financial intermediary for the efficient financing of obligations issued, sold or guaranteed by Federal agencies. The FFB performs three functions, two of which generate Federal outlays that are excluded from the budget. First, most loan assets are now sold to the FFB rather than to the public. This converts the loans from outlays of the original agencies to off-budget FFB outlays. Second, the FFB makes loans directly to borrowers whose obligations are guaranteed by a Federal agency. These guaranteed loans are in effect converted into direct loans off-budget. The FFB assures the efficient financing of these guaranteed loans and reduces borrowing costs.

Third, with some exceptions, the Treasury generally requires agencies authorized to borrow from the public to borrow from the FFB instead. Borrowing by agencies from the FFB does not result in FFB outlays just as borrowing by agencies from the Treasury does not result in Treasury outlays. The use of the proceeds from borrowing is counted as outlays of the borrowing agency. However, the agency must pay interest to the FFB on these borrowings and in turn the FFB pays interest to Treasury on its borrowing. The Treasury can finance its lending to the FFB by borrowing at lower interest rates than the agencies would have to pay.

Table F-5. FFB ACQUISITIONS (in millions of dollars)

| Agency or program                                         | 1981<br>actual | 1982<br>estimate | 1983<br>estimate |
|-----------------------------------------------------------|----------------|------------------|------------------|
| Purchase of loan assets from:                             |                |                  |                  |
| Overseas Private Investment Corporation:                  |                |                  |                  |
| New acquisitions                                          | -5             | -6               | -6               |
| Net outlays                                               | 28             | 23               | 17               |
| Outstandings                                              |                |                  |                  |
| Farmers Home Administration (USDA):                       |                |                  |                  |
| Agricultural credit insurance fund:                       |                |                  |                  |
| New acquisitions                                          | 6,815          | 5,391            | 3,071            |
| Net outlays                                               | 5,790          | 1,066            | -394             |
| Outstandings                                              | 22,357         | 23,423           | 23,029           |
| Rural housing insurance fund:                             |                |                  |                  |
| New acquisitions                                          | 6,045          | 5,619            | 3,537            |
| Net outlays                                               | 4,045          | 3,249            | 852              |
| Outstandings                                              | 21,121         | 24,370           | 25,223           |
| Rural development insurance fund:                         |                |                  |                  |
| New acquisitions                                          | 1,650          | 1,511            | 1,196            |
| Net outlays                                               | 1,025          | 1,036            | 691              |
| Outstandings                                              | 5,343          | 6,379            | 7,070            |
| Rural Electrification Administration (USDA):              |                |                  |                  |
| New acquisitions                                          | 683            | 623              | 525              |
| Net outlays                                               | 683            | 623              | 525              |
| Outstandings                                              | 2,595          | 3,219            | 3,743            |
| Medical facilities guarantees (HHS):                      |                |                  |                  |
| New acquisitions                                          |                |                  |                  |
| Net outlays                                               | -6             | -5               | -5               |
| Outstandings                                              | 158            | 154              | 149              |
| Health Maintenance Organizations (HHS):                   |                |                  |                  |
| New acquisitions                                          | 15             | 28               | 16               |
| Net outlays                                               | 13             | 27               | 16               |
| Outstandings                                              | 118            | 145              | 161              |
| Small business development loans (SBA):                   |                |                  |                  |
| New acquisitions                                          |                |                  |                  |
| Net outlays                                               | -12            | -16              | -16              |
| Outstandings                                              | 76             | 60               | 44               |
| Subtotal, purchase of loan assets:                        |                |                  |                  |
| New acquisitions                                          | 15,208         | 13,173           | 8,346            |
| Net outlays                                               | 11,534         | 5,975            | 1,663            |
| Outstandings                                              | 51,797         | 57,772           | 59,436           |
| Direct loans (purchases of loans guaranteed by agencies): |                |                  |                  |
| Foreign military sales credit (FAP):                      |                |                  |                  |
| New acquisitions                                          | 2,505          | 3,320            | 4,400            |
| Net outlays                                               | 1,945          | 2,670            | 3,715            |
| Outstandings                                              | 9,148          | 11,818           | 15,533           |

Table F-5. FFB ACQUISITIONS (in millions of dollars)—Continued

| Agency or program                                         | 1981<br>actual | 1982<br>estimate | 1983<br>estimate |
|-----------------------------------------------------------|----------------|------------------|------------------|
| <b>Rural Electrification Administration (USDA):</b>       |                |                  |                  |
| New acquisitions                                          | 4,007          | 4,311            | 4,136            |
| Net outlays                                               | 3,918          | 4,309            | 4,129            |
| Outstandings                                              | 12,343         | 16,652           | 20,781           |
| <b>Guarantees of SLMA obligations (FEA):</b>              |                |                  |                  |
| New acquisitions                                          | 1,955          | 700              |                  |
| Net outlays                                               | 1,955          | 700              |                  |
| Outstandings                                              | 4,300          | 5,000            | 5,000            |
| <b>Alternative fuels and other energy (Commerce):</b>     |                |                  |                  |
| New acquisitions                                          | 18             | 498              | 915              |
| Net outlays                                               | 18             | 498              | 915              |
| Outstandings                                              | 18             | 516              | 1,431            |
| <b>Low-rent public housing (HUD):</b>                     |                |                  |                  |
| New acquisitions                                          | 822            | 1,261            | 1,026            |
| Net outlays                                               | 810            | 1,224            | 969              |
| Outstandings                                              | 928            | 2,153            | 3,122            |
| <b>Community development grants (HUD):</b>                |                |                  |                  |
| New acquisitions                                          | 45             | 110              | 120              |
| Net outlays                                               | 34             | 96               | 83               |
| Outstandings                                              | 74             | 170              | 253              |
| <b>New Communities Administration (HUD):</b>              |                |                  |                  |
| New acquisitions                                          |                |                  |                  |
| Net outlays                                               |                |                  |                  |
| Outstandings                                              | 34             | 34               | 34               |
| <b>Loans to territories (Interior):</b>                   |                |                  |                  |
| New acquisitions                                          |                | 30               |                  |
| Net outlays                                               | 0              | 30               | -1               |
| Outstandings                                              | 66             | 96               | 95               |
| <b>Railroad programs (DOT):</b>                           |                |                  |                  |
| New acquisitions                                          | 1,794          | 173              | 58               |
| Net outlays                                               | 250            | 42               | 19               |
| Outstandings                                              | 1,521          | 1,563            | 1,583            |
| <b>Public building CB's<sup>a</sup> (GSA):</b>            |                |                  |                  |
| New acquisitions                                          | 14             | 35               |                  |
| Net outlays                                               | 13             | 29               | -8               |
| Outstandings                                              | 514            | 542              | 535              |
| <b>Satellite leases (NASA):</b>                           |                |                  |                  |
| New acquisitions                                          | 111            | 206              | 171              |
| Net outlays                                               | 111            | 206              | 112              |
| Outstandings                                              | 638            | 844              | 996              |
| <b>Small business investment companies and other SBA:</b> |                |                  |                  |
| New acquisitions                                          | 165            | 275              | 240              |
| Net outlays                                               | 131            | 240              | 195              |
| Outstandings                                              | 608            | 848              | 1,043            |

Table F-5. FFB ACQUISITIONS (in millions of dollars)—Continued

| Agency or program                                                     | 1981<br>actual | 1982<br>estimate | 1983<br>estimate |
|-----------------------------------------------------------------------|----------------|------------------|------------------|
| Seven States Energy Corporation (TVA):                                |                |                  |                  |
| New acquisitions.....                                                 | 3,624          | 4,285            | 5,289            |
| <i>Net outlays</i> .....                                              | 237            | 198              | 278              |
| Outstandings.....                                                     | 922            | 1,120            | 1,398            |
| Subtotal, direct loans (purchase of loans<br>guaranteed by agencies): |                |                  |                  |
| New acquisitions.....                                                 | 15,061         | 15,204           | 16,355           |
| <i>Net outlays</i> .....                                              | 9,422          | 10,242           | 10,407           |
| Outstandings.....                                                     | 31,113         | 41,355           | 51,763           |
| Subtotal, all direct loans and purchases of<br>agency loan assets:    |                |                  |                  |
| New acquisitions.....                                                 | 30,269         | 28,377           | 24,701           |
| <i>Net outlays</i> .....                                              | 20,956         | 16,217           | 12,071           |
| Outstandings.....                                                     | 82,911         | 99,127           | 111,198          |
| <b>AGENCY BORROWING</b>                                               |                |                  |                  |
| <b>ADDENDUM</b>                                                       |                |                  |                  |
| By: on-budget agencies:                                               |                |                  |                  |
| Export-Import Bank:                                                   |                |                  |                  |
| <i>Net change</i> .....                                               | 2,342          | 2,234            | 1,965            |
| Outstandings.....                                                     | 12,409         | 14,643           | 16,608           |
| Tennessee Valley Authority:                                           |                |                  |                  |
| <i>Net change</i> .....                                               | 1,939          | 2,136            | 1,675            |
| Outstandings.....                                                     | 10,874         | 13,010           | 14,685           |
| National Credit Union Association:                                    |                |                  |                  |
| <i>Net change</i> .....                                               | 11             | -3               | -4               |
| Outstandings.....                                                     | 101            | 98               | 94               |
| By: off-budget Federal entities:                                      |                |                  |                  |
| U.S. Railway Association:                                             |                |                  |                  |
| <i>Net change</i> .....                                               | -267           | -94              | -13              |
| Outstandings.....                                                     | 215            | 121              | 108              |
| Postal Service:                                                       |                |                  |                  |
| <i>Net change</i> .....                                               | -232           | 433              | -87              |
| Outstandings.....                                                     | 1,288          | 1,721            | 1,634            |
| Total agency borrowing:                                               |                |                  |                  |
| <i>Net change</i> .....                                               | 3,794          | 4,705            | 3,537            |
| Outstandings.....                                                     | 24,888         | 29,593           | 33,129           |

\* \$500,000 or less.

† Certificates of beneficial interest.

Table F-5 lists the activities of the FFB for 1981-83 by agency and account. The first set of entries lists FFB purchases of agency loan assets. The second set of entries lists FFB direct loans, i.e. disbursements of loans guaranteed by Federal agencies. The adden-

dum lists borrowing (debt issues) by on-budget agencies and off-budget entities from the FFB.

The FFB's net outlays from lending are expected to fall from \$21.0 billion in 1981 to \$16.2 billion in 1982, and to \$12.1 billion in 1983, a decrease over the 2 years of \$8.9 billion. This decrease can be attributed to reduced purchases of CBO's issued by FmHA. Net purchases of FmHA loan assets fall from \$10.9 billion in 1981 to \$1.1 billion in 1983. Net FFB disbursements of loans guaranteed by other agencies will remain stable in 1982 and 1983, as increases in foreign military sales credit offset reductions in loans to the Student Loan Marketing Association.

### LOAN GUARANTEES

Loan guarantees are agreements in which a Government agency pledges to use Government funds, as necessary, to secure a lender against default on the part of the borrower. The loan guarantee is the Federal Government's contingent liability, which may be less than the full face value of the loan. A guaranteed loan is the resulting loan, with a guarantee attached. Loan insurance is a type of guarantee in which a Government agency operates a program of pooled risks, pledging the use of accumulated insurance premiums to secure a lender against default on the part of a borrower. The major use of loan guarantees has been to support housing, but in recent years guarantees have increasingly been used for other purposes.

Loan guarantees are designed to allocate economic resources to particular uses by providing credit at more favorable terms than would otherwise be available in the private market. In cases where the loan guarantee recipients are not sufficiently creditworthy to borrow without Federal assistance, the guarantee reallocates credit toward federally selected uses, increasing the total volume of credit channeled into these uses. This leaves a smaller supply of credit to be allocated to those potential borrowers who do not receive assistance. However, the guarantee does not always change the allocation of credit. Some beneficiaries of loan guarantee programs would have been able to secure the funds privately, without Government support. For example, guaranteed mortgage credit might be used to finance, at a lower cost, a house that would have been purchased anyway. In such a case, the guarantee does not alter the allocation of credit resources.

The loan guarantee is used in widely varying programs. The guaranteed loan may be made to individuals, businesses, State and local governments, or foreign governments. The guaranteed obligation may be a loan made by a bank or other institutional lender, it may be a security sold in the capital market, or it may be a security sold to the FFB. In the case of fully guaranteed loans, the

Government guarantees the repayment of all principal and interest. In the case of partially guaranteed loans, the Government guarantees only partial repayment of principal and interest. Guaranteed loans also include loans on which the Government promises to pay a share of the interest, though none of the principal. Credit may be indirectly guaranteed without being explicitly labeled as a loan guarantee program under various contractual agreements, including guarantees of private leases, contracts to make subsidy payments over extended periods and debt service grants. Guaranteed loans include most loan assets sold by Federal agencies.

Guaranteed loans are not reflected in budget outlays when credit is extended. Guaranteed loans generally result in budget outlays only when there is a default, requiring the Government to pay the lender's claims for losses. Losses from loan guarantee programs have generally been small, partly because most of the loans were protected with liens on marketable property. Some of the newer loan guarantee programs, such as student loans, have greater losses.

Data for guaranteed loans, for 1981-83, organized by agency or program, are presented in table F-6. The table includes the full amount of the principal of guaranteed loans, even though in some cases the Government guarantees less than the total amount. The structure of table F-6 is comparable to that for direct loans in table F-3. Information on the amount of the Federal contingent liability under these guarantees may be found in the *Budget Appendix*.

Commitments for new guaranteed loans are agreements by the Government to guarantee loans upon the prospective borrowers' and lenders' fulfillment of specific conditions. Commitments in a given year do not always result in new guaranteed loans in that year, since conversion of a commitment to a guaranteed loan can take time and some prospective borrowers to whom commitments are made do not ever convert the commitments into borrowing. The net change in loans guaranteed is equal to the amount of new guaranteed loans less repayments and other adjustments. The net change is also equal to the difference in guaranteed loans outstanding at the end and at the beginning of the year.

Table F-6. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)

| Agency or program                           | Commitments    |                  |                  | Loans guaranteed |                  |                  |
|---------------------------------------------|----------------|------------------|------------------|------------------|------------------|------------------|
|                                             | 1981<br>actual | 1982<br>estimate | 1983<br>estimate | 1981<br>actual   | 1982<br>estimate | 1983<br>estimate |
| <b>Funds Appropriated to the President:</b> |                |                  |                  |                  |                  |                  |
| International security assistance           |                |                  |                  |                  |                  |                  |
| New transactions                            | 2,546          | 3,084            | 3,929            | 2,505            | 3,320            | 4,400            |
| Net change                                  |                |                  |                  | 2,038            | 2,775            | 3,815            |
| Outstandings                                |                |                  |                  | 9,425            | 12,200           | 16,015           |
| International development assistance        |                |                  |                  |                  |                  |                  |
| New transactions                            | 229            | 250              | 250              | 105              | 275              | 350              |
| Net change                                  |                |                  |                  | 71               | 241              | 292              |
| Outstandings                                |                |                  |                  | 964              | 1,205            | 1,497            |
| <b>Agriculture:</b>                         |                |                  |                  |                  |                  |                  |
| Farmers Home Administration                 |                |                  |                  |                  |                  |                  |
| New transactions                            | 15,434         | 13,327           | 7,955            | 15,329           | 13,375           | 8,542            |
| Net change                                  |                |                  |                  | 10,555           | 5,257            | 1,282            |
| Outstandings                                |                |                  |                  | 54,879           | 60,137           | 61,418           |
| Commodity Credit Corporation export credit  |                |                  |                  |                  |                  |                  |
| New transactions                            | 2,015          | 2,500            | 2,500            | 1,516            | 2,500            | 2,500            |
| Net change                                  |                |                  |                  | 1,298            | 1,739            | 641              |
| Outstandings                                |                |                  |                  | 2,005            | 3,744            | 4,384            |
| <b>Rural Electrification Administration</b> |                |                  |                  |                  |                  |                  |
| New transactions                            | 5,134          | 4,245            | 3,760            | 4,793            | 5,039            | 4,771            |
| Net change                                  |                |                  |                  | 4,704            | 5,037            | 4,764            |
| Outstandings                                |                |                  |                  | 15,543           | 20,581           | 25,344           |
| <b>Commerce:</b>                            |                |                  |                  |                  |                  |                  |
| Economic development assistance             |                |                  |                  |                  |                  |                  |
| New transactions                            | 178            | 50               |                  | 178              | 50               |                  |
| Net change                                  |                |                  |                  | 113              | -39              | -90              |
| Outstandings                                |                |                  |                  | 702              | 663              | 573              |

Table F-6 GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT

[illegible]

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|                                             |                 |         |         |         |         |
|---------------------------------------------|-----------------|---------|---------|---------|---------|
| Canada, Mortgage-backed securities          | New investments | 28,500  | 16,843  | 28,500  | 32,000  |
|                                             | Net change      | 24,963  | 15,183  | 24,963  | 28,700  |
|                                             | Outstanding     | 128,600 | 104,637 | 128,600 | 158,300 |
| Interior:                                   |                 |         |         |         |         |
| Indian programs                             | New investments | 63      | 1       | 63      | 24      |
|                                             | Net change      | -2      | -2      | -2      | 14      |
|                                             | Outstanding     | 118     | 119     | 118     | 191     |
| Transportation:                             |                 |         |         |         |         |
| Rail programs                               | New investments | 62      | 104     | 62      | 58      |
|                                             | Net change      | 427     | 635     | 427     | 557     |
|                                             | Outstanding     | 1,285   | 1,277   | 1,285   | 1,304   |
| Washington M.I.A. bonds                     | New investments |         |         |         |         |
|                                             | Net change      |         |         |         |         |
|                                             | Outstanding     |         |         |         |         |
| Federal ship financing fund                 | New investments | 750     | 907     | 907     | 907     |
|                                             | Net change      | 427     | 635     | 427     | 557     |
|                                             | Outstanding     | 6,995   | 6,995   | 6,995   | 7,552   |
| Aircraft loans                              | New investments | 209     | 423     | 209     |         |
|                                             | Net change      | 134     | 371     | 134     | -77     |
|                                             | Outstanding     | 740     | 606     | 740     | 663     |
| Treasury:                                   |                 |         |         |         |         |
| Guarantees of New York City notes           | New investments | 300     | 300     | 300     |         |
|                                             | Net change      | 207     | 211     | 207     | -152    |
|                                             | Outstanding     | 1,144   | 539     | 1,144   | 1,012   |
| Chrysler Corporation loan guarantee program | New investments |         |         |         |         |
|                                             | Net change      |         |         |         |         |
|                                             | Outstanding     |         |         |         |         |
| Business energy development                 | New investments |         |         |         |         |
|                                             | Net change      |         |         |         |         |
|                                             | Outstanding     |         |         |         |         |
|                                             |                 | 1,200   | 1,200   | 1,200   | 1,200   |
|                                             |                 | 700     |         |         | 700     |

Table F-6. GUARANTEED LOAN TRANSACTIONS BY THE FEDERAL GOVERNMENT (in millions of dollars)

| Agency or program                                                    | Guarantees     |                |                  |                  | Loans guaranteed |                  |                  |
|----------------------------------------------------------------------|----------------|----------------|------------------|------------------|------------------|------------------|------------------|
|                                                                      | 1981<br>actual | 1982<br>actual | 1982<br>estimate | 1983<br>estimate | 1982<br>actual   | 1983<br>estimate | 1983<br>estimate |
| NASA Long term satellite leases                                      |                |                |                  |                  |                  | 700              | 700              |
|                                                                      |                |                |                  |                  |                  | 700              | 700              |
|                                                                      |                |                |                  |                  |                  |                  |                  |
|                                                                      |                |                |                  |                  |                  |                  |                  |
| Veterans Administration (housing)                                    |                |                |                  |                  |                  |                  |                  |
|                                                                      |                |                |                  |                  |                  |                  |                  |
|                                                                      |                |                |                  |                  |                  |                  |                  |
|                                                                      |                |                |                  |                  |                  |                  |                  |
| Export-Import Bank                                                   |                |                |                  |                  |                  |                  |                  |
|                                                                      |                |                |                  |                  |                  |                  |                  |
|                                                                      |                |                |                  |                  |                  |                  |                  |
|                                                                      |                |                |                  |                  |                  |                  |                  |
| Foundation for Education Assistance<br>Guarantee of SLMA debt issues |                |                |                  |                  |                  |                  |                  |
|                                                                      |                |                |                  |                  |                  |                  |                  |
|                                                                      |                |                |                  |                  |                  |                  |                  |
|                                                                      |                |                |                  |                  |                  |                  |                  |
| Student loan insurance fund                                          |                |                |                  |                  |                  |                  |                  |
|                                                                      |                |                |                  |                  |                  |                  |                  |
|                                                                      |                |                |                  |                  |                  |                  |                  |
|                                                                      |                |                |                  |                  |                  |                  |                  |
| General Services Administration                                      |                |                |                  |                  |                  |                  |                  |
|                                                                      |                |                |                  |                  |                  |                  |                  |
|                                                                      |                |                |                  |                  |                  |                  |                  |
|                                                                      |                |                |                  |                  |                  |                  |                  |

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|                                                     |         |         |
|-----------------------------------------------------|---------|---------|
| National Credit Union Administration                | 100     | 75      |
| Net change                                          | 58      | 44      |
| Outstandings                                        | 118     | 174     |
| Small Business Administration:                      |         |         |
| Business loan guarantees                            | 2,986   | 3,000   |
| Net change                                          | 1,269   | 834     |
| Outstandings                                        | 9,977   | 12,233  |
| Disaster Loan fund                                  |         |         |
| New transactions                                    | 1       | 6       |
| Net change                                          | *       | 5       |
| Outstandings                                        | 8       | 11      |
| Pollution control bond guarantees                   |         |         |
| New transactions                                    | 100     | 150     |
| Net change                                          | 100     | 150     |
| Outstandings                                        | 256     | 406     |
| Tennessee Valley Authority                          |         |         |
| New transactions                                    | 3,624   | 4,285   |
| Net change                                          | 237     | 198     |
| Outstandings                                        | 922     | 1,120   |
| Other agencies and programs                         |         |         |
| New transactions                                    |         | 31      |
| Net change                                          |         | 14      |
| Outstandings                                        |         | -42     |
| Subtotal, guaranteed loans (gross)                  | 152,729 | 166,130 |
|                                                     | 111,480 | 140,413 |
| Net change                                          | 63,721  | 86,718  |
| Outstandings                                        | 505,405 | 590,686 |
| Less secondary guaranteed loans: <sup>1</sup>       |         |         |
| GNMA guarantees of FHA/VA/FmHA pools                |         |         |
| New transactions                                    | 42,150  | 48,000  |
| Net change                                          | 16,853  | 28,500  |
| Outstandings                                        | 15,185  | 24,963  |
|                                                     | 104,637 | 129,600 |
| Education Foundation guarantees of SLMA debt issues | 1,955   | 700     |

Table F-6. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued

| Agency or program                                                       | Commitments    |                  |                  | Loans guaranteed |                  |                  |
|-------------------------------------------------------------------------|----------------|------------------|------------------|------------------|------------------|------------------|
|                                                                         | 1981<br>actual | 1982<br>estimate | 1983<br>estimate | 1981<br>actual   | 1982<br>estimate | 1983<br>estimate |
| DOT guarantees of USRA debt                                             |                |                  |                  |                  |                  |                  |
| <i>Net change</i>                                                       |                |                  |                  | 1,955            | 700              |                  |
| Outstandings                                                            |                |                  |                  | 4,300            | 5,000            | 5,000            |
| New transactions                                                        | 8              |                  |                  | 68               | 19               | 8                |
| <i>Net change</i>                                                       |                |                  |                  | -369             | -101             | -17              |
| Outstandings                                                            |                |                  |                  | 299              | 198              | 181              |
| New transactions                                                        | 108,616        | 117,430          | 123,054          | 92,604           | 111,194          | 114,443          |
| Subtotal, guaranteed loans (net)                                        |                |                  |                  | 45,950           | 59,719           | 58,035           |
| Outstandings                                                            |                |                  |                  | 396,170          | 455,888          | 513,923          |
| Less guaranteed loans held as direct loans: <sup>a</sup>                |                |                  |                  |                  |                  |                  |
| By budget agency (GNMA)                                                 | 1,832          | 1,989            |                  | 2,168            | 2,119            | 2,017            |
| <i>Net change</i>                                                       |                |                  |                  | 22               | -501             | -631             |
| Outstandings                                                            |                |                  |                  | 4,203            | 3,702            | 3,071            |
| New transactions                                                        | 30,269         | 28,377           | 24,701           | 30,269           | 28,377           | 24,701           |
| <i>Net change</i>                                                       |                |                  |                  | 20,956           | 16,217           | 12,071           |
| Outstandings                                                            |                |                  |                  | 82,911           | 99,127           | 111,198          |
| New transactions                                                        | 76,515         | 87,065           | 98,354           | 60,168           | 80,698           | 87,725           |
| <i>Net change</i>                                                       |                |                  |                  | 27,972           | 44,003           | 46,595           |
| Outstandings                                                            |                |                  |                  | 309,056          | 353,059          | 399,654          |
| Total, primary guaranteed loans <sup>a</sup>                            |                |                  |                  |                  |                  |                  |
| Memorandum:                                                             |                |                  |                  |                  |                  |                  |
| Callable capital contributions to international financial organizations | 1,133          | 2,340            | 2,361            | 1,133            | 2,340            | 2,361            |
| <i>Net change</i>                                                       |                |                  |                  | 1,133            | 2,340            | 2,361            |

## ADDENDUM

Less guaranteed loans held as direct loans by Government sponsored enterprises:  
Federal National Mortgage Association.....

Federal home loan banks.....

Federal Home Loan Mortgage Corporation.....

Student Loan Marketing Association.....

Farm Credit Administration.....

Total Enterprise holdings.....

|                       |       |       |       |  |        |        |        |
|-----------------------|-------|-------|-------|--|--------|--------|--------|
| Outstandings.....     |       |       |       |  | 13,508 | 15,848 | 18,209 |
| New transactions..... |       |       |       |  | 3,545  | 2,500  | 1,950  |
| Net change.....       | 1,806 | 2,244 | 2,575 |  | 2,234  | 858    | 1,641  |
| Outstandings.....     |       |       |       |  | 39,792 | 40,650 | 42,291 |
| New transactions..... | 7     | 3     | 3     |  | 7      | 3      | 3      |
| Net change.....       |       |       |       |  | 4      | 2      | 2      |
| Outstandings.....     |       |       |       |  | 86     | 88     | 90     |
| New transactions..... |       |       |       |  |        |        |        |
| Net change.....       |       |       |       |  | -119   | -65    | -115   |
| Outstandings.....     |       |       |       |  | 989    | 923    | 808    |
| New transactions..... | 575   | 1,166 | 2,000 |  | 575    | 1,166  | 2,000  |
| Net change.....       |       |       |       |  | 97     | 855    | 1,421  |
| Outstandings.....     |       |       |       |  | 31     | 866    | 2,307  |
| New transactions..... | 12    | 9     | 11    |  | 12     | 9      | 11     |
| Net change.....       |       |       |       |  | 3      | *      | 4      |
| Outstandings.....     |       |       |       |  | 24     | 24     | 28     |
| New transactions..... | 2,400 | 3,422 | 4,589 |  | 4,139  | 3,678  | 3,964  |
| Net change.....       |       |       |       |  |        |        |        |
| Outstandings.....     |       |       |       |  | 2,219  | 1,649  | 2,953  |
|                       |       |       |       |  |        |        |        |
| Outstandings.....     |       |       |       |  | 40,922 | 42,551 | 45,524 |

\* Secondary guarantees by the Export-Import Bank of the debt of the Private Export Finance Corporation have not been estimated and are excluded from the table.  
\* When guaranteed loans are acquired by a budget account, they become direct loans, and are counted as such in Table F-3. This deduction eliminates the overlap with Table F-3.  
\* Outstanding guaranteed loans exclude adjustments for deferred interest and transfers.

The aggregation of loan guarantees for each program to derive a gross total involves some double counting. Elimination of this double counting requires two adjustments. The first adjustment deducts loans previously guaranteed, or secondary guaranteed loans. They occur, for example, in the case of the GNMA mortgage-backed securities program, which guarantees securities that are backed by pools of federally guaranteed or insured loans held by the seller. The second adjustment deducts guarantees of loans that are also direct loans by the Government—by either on- or off-budget accounts. The total after these two deductions represents what are defined as primary guaranteed loans. An addendum includes guaranteed loans purchased by a Government-sponsored enterprise.

Net loans guaranteed are expected to increase significantly in 1982, from \$30.0 billion in 1981 to \$44.0 billion in 1982, a change of \$14.0 billion. The growth will continue at a much slower pace in 1983, rising by \$2.6 billion to \$46.6 billion. This increase is due primarily to improved economic conditions for housing. As the housing industry recovers from its depressed 1981 level, net guaranteed loans are expected to increase between 1981 and 1983 by \$9.6 billion in the FHA mortgage insurance program and \$8.2 billion in the Veterans Administration mortgage insurance program. Net guaranteed loan levels for most other programs are being held stable or decreasing during 1982 and 1983.

#### FUNCTIONAL AREAS SUPPORTED BY FEDERAL CREDIT ASSISTANCE

The distributions of direct and guaranteed loans by function are given in table F-7. Table F-7 records the levels of new direct loans and new guaranteed loans. The largest Federal credit activity occurs in commerce and housing credit, international affairs, and veterans benefits. These three functions are expected to comprise 59% of new commitments and obligations in 1983. Part 5 of the *Budget* discusses Federal credit activities by function together with Federal outlays.

Table F-7. DIRECT LOANS AND GUARANTEED LOANS BY FUNCTION

(in millions of dollars)

| Function                                                     | Direct loans obligations |                  |                  | Guaranteed loan commitments |                  |                  |
|--------------------------------------------------------------|--------------------------|------------------|------------------|-----------------------------|------------------|------------------|
|                                                              | 1981<br>actual           | 1982<br>estimate | 1983<br>estimate | 1981<br>actual              | 1982<br>estimate | 1983<br>estimate |
| International affairs.....                                   | 10,097                   | 10,014           | 12,215           | 7,687                       | 8,014            | 7,779            |
| General science, space and technology ..                     | 111                      | 206              | 171              |                             |                  |                  |
| Energy.....                                                  | 8,855                    | 10,317           | 11,182           | 3,722                       | -484             | -1,816           |
| Natural resources and environment.....                       | 25                       | 27               | 39               |                             |                  |                  |
| Agriculture.....                                             | 15,101                   | 16,796           | 13,818           | 2,158                       | 2,701            | 2,631            |
| Commerce and housing credit.....                             | 10,714                   | 10,913           | 5,938            | 25,843                      | 29,707           | 37,730           |
| Transportation.....                                          | 1,886                    | 362              | 117              | -330                        | 693              | 542              |
| Community and regional development.....                      | 3,601                    | 2,096            | 1,715            | 1,039                       | 676              | -104             |
| Education, training, employment, and<br>social services..... | 2,514                    | 1,633            | 648              | 5,807                       | 8,800            | 10,300           |
| Health.....                                                  | 57                       | 54               | 40               | 52                          | 82               | 88               |
| Income security.....                                         | 3,020                    | 2,766            | 2,031            | 18,520                      | 17,032           | 18,745           |
| Veterans benefits and services.....                          | 987                      | 878              | 936              | 11,719                      | 19,542           | 22,451           |
| General government.....                                      | 14                       | 65               |                  |                             |                  | 8                |
| General purpose fiscal assistance.....                       | 214                      | 225              | 145              | 300                         | 300              |                  |
| <b>Total credit budget <sup>a</sup>.....</b>                 | <b>57,194</b>            | <b>56,351</b>    | <b>48,994</b>    | <b>76,516</b>               | <b>87,068</b>    | <b>98,354</b>    |

## GOVERNMENT-SPONSORED ENTERPRISES

Government-sponsored enterprises have been established and chartered by the Federal Government to perform specialized credit functions. They are financial intermediaries, designed to facilitate the financing of selected kinds of economic activity, by serving as reserve facilities or performing secondary market functions. They are all privately owned and most are independent of Federal control to a substantial degree. Since they are privately owned, their activities are not included in the budget totals. They are all subject, however, to some form of Federal supervision, and by law or by custom they consult with the Treasury Department in planning the marketing of their debt. The enterprises included in this category are the Student Loan Marketing Association (SLMA), the Federal National Mortgage Association (FNMA), three components of the Farm Credit System, and the Federal Home Loan Bank system (FHLBS) which includes the Federal Home Loan Mortgage Corporation (FHLMC). Part 6 of the *Budget* discusses Government-sponsored enterprises.

Government sponsorship has provided these enterprises with characteristics that differentiate them in credit markets from completely private institutions. They have been given special preferences and certain tax exemptions, and their securities may be offered as investments of federally regulated institutions. These advantages give their security obligations a preferred position in the securities markets, enabling them to borrow at rates only slightly higher than those of the Treasury.

Funds lent by Government-sponsored enterprises are generally obtained from private bond markets. The sole exception, SLMA, had, until 1981, borrowed exclusively from the FFB, although beginning in 1983 it will raise all its additional funds in private markets. Sale of capital stock and retained earnings provide only a very small portion of the resources used for lending. The pattern of borrowing and lending varies widely over time. For example, some enterprises, such as FNMA, were created to establish secondary markets, thereby increasing liquidity in mortgage markets; others, such as the Federal home loan banks, are facilities advancing reserves to member institutions, in this case savings and loan associations.\* These enterprises provide liquidity to primary lenders in times of tight monetary conditions, by either purchasing loans from the primary lenders or by making advances to the primary lenders. These loans and advances are then paid back as monetary and financial conditions improve. In recent years, this latter group of enterprises has expanded its role by seeking to draw new funds into mortgage markets at all times. By borrowing additional funds themselves, they can provide more funds to the basic mortgage lending institutions.

Table F-8 shows the lending and borrowing of Government-sponsored enterprises for 1981-83. The format of this table closely resembles that used in table F-3 for direct loans and F-6 for guaranteed loans. Total gross lending and borrowing are adjusted to avoid the double counting that arises from loans between enterprises and between enterprises and the Federal Government. The deductions in the table remove this double counting.

Lending by Government-sponsored enterprises has been growing rapidly in recent years. This trend will continue in 1982 and 1983, according to the plans of FHLMC and FNMA. Both enterprises expect to expand their new programs of conventional mortgage-backed securities greatly beginning in 1982. These securities are packaged by mortgage lenders and guaranteed by FHLMC and FNMA in much the same way as GNMA mortgage-backed securities are issued and guaranteed. However, the FHLMC and FNMA programs will guarantee conventional mortgages, insured by private mortgage insurers, rather than FHA and VA insured mortgages. For FHLMC the expansion shown in table F-7 is dependent

\* The program of GNMA (a budget entity in HUD) to guarantee mortgage-backed securities achieves a similar purpose of financial intermediation. GNMA guarantees securities issued against privately held pools of federally guaranteed or insured mortgages. The Federal Reserve Board flow-of-funds data include this GNMA program within the definition of Government-sponsored enterprises. GNMA data for this activity appear as entries in Table F-6, Guaranteed Loans.

Table F-8. CREDIT ADVANCED AND RAISED BY GOVERNMENT-SPONSORED ENTERPRISES (in millions of dollars)

| Agency or program                      | Outlayings  |               |               | Lemon trade |               |               |
|----------------------------------------|-------------|---------------|---------------|-------------|---------------|---------------|
|                                        | 1981 actual | 1982 estimate | 1983 estimate | 1981 actual | 1982 estimate | 1983 estimate |
| <b>LENDING (FUNDS ADVANCED)</b>        |             |               |               |             |               |               |
| Student Loan Marketing Association     |             |               |               |             |               |               |
| New transactions                       |             |               |               |             | 1,866         | 2,000         |
| Net change                             | 2,530       | 1,866         | 2,000         | 2,530       | 2,052         | 1,427         |
| Outstandings                           |             |               |               | 4,331       | 5,888         | 7,367         |
| Federal National Mortgage Association  |             |               |               |             |               |               |
| New transactions                       |             |               |               |             | 16,025        | 15,950        |
| Net change                             | 5,277       | 13,820        | 15,829        | 6,069       | 12,639        | 22,496        |
| Outstandings                           |             |               |               | 58,682      | 72,329        | 84,316        |
| Farm Credit Administration             |             |               |               |             |               |               |
| New transactions                       |             |               |               |             | 28,550        | 33,192        |
| Net change                             | 24,538      | 28,550        | 33,192        | 24,938      | 777           | 33,192        |
| Outstandings                           |             |               |               | 9,429       | 18,587        | 11,962        |
| Federal intermediate credit banks      |             |               |               |             |               |               |
| New transactions                       |             |               |               |             | 21,834        | 23,832        |
| Net change                             | 17,837      | 21,834        | 23,832        | 17,637      | 3,723         | 2,723         |
| Outstandings                           |             |               |               | 25,389      | 25,386        | 26,873        |
| Federal land banks                     |             |               |               |             |               |               |
| New transactions                       |             |               |               |             | 11,918        | 13,172        |
| Net change                             | 11,983      | 11,918        | 13,172        | 11,983      | 2,289         | 2,289         |
| Outstandings                           |             |               |               | 44,452      | 51,564        | 68,154        |
| Federal home loan bank system          |             |               |               |             |               |               |
| New transactions                       |             |               |               |             | 52,864        | 58,003        |
| Net change                             | 52,864      | 58,003        | 65,003        | 52,864      | 20,516        | 5,002         |
| Outstandings                           |             |               |               | 68,396      | 72,878        | 77,880        |
| Federal Home Loan Mortgage Corporation |             |               |               |             |               |               |
| New transactions                       |             |               |               |             | 3,011         | 28,824        |
| Net change                             | 3,011       | 23,740        | 28,824        | 3,011       | -878          | -716          |
| Outstandings                           |             |               |               | 5,343       | 4,624         | 3,917         |
| Participation certificate pools        |             |               |               |             |               |               |
| New transactions                       |             |               |               |             | 1,884         | 23,840        |
| Net change                             | 1,884       | 23,840        | 29,040        | 1,884       | 2,715         | 21,507        |
| Outstandings                           |             |               |               | 17,965      | 28,576        | 63,677        |

Table F-8. CREDIT ADVANCED AND RAISED BY GOVERNMENT-SPONSORED ENTERPRISES (in millions of dollars)—Continued

| Agency or program                                                                       | Obligation     |                  |                  | Funds made     |                  |                  |
|-----------------------------------------------------------------------------------------|----------------|------------------|------------------|----------------|------------------|------------------|
|                                                                                         | 1981<br>actual | 1982<br>estimate | 1983<br>estimate | 1981<br>actual | 1982<br>estimate | 1983<br>estimate |
| Subtotal, lending (gross)                                                               | 119,225        | 183,772          | 210,899          | 120,017        | 185,977          | 211,220          |
| New transactions                                                                        |                |                  |                  |                |                  |                  |
| Net change                                                                              |                |                  |                  | 36,940         | 51,528           | 55,543           |
| Outstandings                                                                            |                |                  |                  | 231,417        | 282,945          | 338,487          |
| Less loans between sponsored enterprises:<br>Federal home loan banks to FHLMC           | 660            |                  |                  | 660            | -882             | -500             |
|                                                                                         |                |                  |                  | 3,872          | 2,990            | 2,490            |
| Less secondary funds advanced from Federal sources: *                                   |                |                  |                  |                |                  |                  |
| SLMA from FFB                                                                           | 1,955          | 700              |                  | 1,955          | 700              |                  |
|                                                                                         |                |                  |                  | 1,955          | 700              |                  |
| Outstandings                                                                            |                |                  |                  | 4,300          | 5,000            | 5,000            |
| Less guaranteed loans held as direct loans by:<br>Federal National Mortgage Association | 1,806          | 2,244            | 2,575            | 3,545          | 2,500            | 1,950            |
|                                                                                         |                |                  |                  | 2,234          | 858              | 1,641            |
| Outstandings                                                                            |                |                  |                  | 35,792         | 40,550           | 42,291           |
| New transactions                                                                        | 7              | 3                | 3                | 7              | 3                | 3                |
| Net change                                                                              |                |                  |                  | 4              | 2                | 2                |
| Outstandings                                                                            |                |                  |                  | 86             | 88               | 90               |
| Federal home loan banks                                                                 |                |                  |                  |                |                  |                  |
| Federal Home Loan Mortgage Corporation                                                  |                |                  |                  | -119           | -66              | -115             |
|                                                                                         |                |                  |                  | 989            | 923              | 808              |
| Farm Credit Administration                                                              | 12             | 9                | 11               | 12             | 9                | 11               |
|                                                                                         |                |                  |                  | 3              | 4                | 4                |
| Outstandings                                                                            |                |                  |                  | 24             | 24               | 28               |
| Student Loan Marketing Association <sup>2</sup>                                         | 575            | 1,166            | 2,000            | 575            | 1,166            | 2,000            |
| Net change                                                                              |                |                  |                  | 97             | 855              | 1,421            |

|                                                      |         |         |         |         |         |         |
|------------------------------------------------------|---------|---------|---------|---------|---------|---------|
| Total credit advanced.....                           | 114,210 | 179,650 | 206,310 | 31      | 886     | 2,307   |
| Outstandings.....                                    |         |         |         |         |         |         |
| New transactions.....                                |         |         |         | 113,263 | 181,599 | 207,255 |
| Net change.....                                      |         |         |         | 32,440  | 50,062  | 53,089  |
| Outstandings.....                                    |         |         |         | 182,323 | 232,384 | 285,474 |
| <b>BORROWING (FUNDS RAISED)</b>                      |         |         |         |         |         |         |
| Student Loan Marketing Association.....              |         |         |         | 2,223   | 1,603   | 1,543   |
| Outstandings.....                                    |         |         |         | 4,568   | 6,171   | 7,713   |
| Net change.....                                      |         |         |         | 4,342   | 11,646  | 11,657  |
| Outstandings.....                                    |         |         |         | 56,688  | 68,334  | 79,991  |
| Net change.....                                      |         |         |         | 737     | 1,093   | 1,136   |
| Outstandings.....                                    |         |         |         | 9,122   | 10,215  | 11,351  |
| Net change.....                                      |         |         |         | 1,921   | 2,882   | 3,502   |
| Outstandings.....                                    |         |         |         | 21,281  | 24,163  | 27,666  |
| Net change.....                                      |         |         |         | 6,819   | 6,842   | 7,494   |
| Outstandings.....                                    |         |         |         | 41,076  | 47,918  | 55,411  |
| Net change.....                                      |         |         |         | 21,029  | 3,662   | 4,075   |
| Outstandings.....                                    |         |         |         | 57,528  | 61,290  | 65,365  |
| Net change.....                                      |         |         |         | 1,847   | 20,948  | 23,460  |
| Outstandings.....                                    |         |         |         | 23,344  | 44,291  | 67,752  |
| Net change.....                                      |         |         |         | 38,917  | 48,676  | 52,867  |
| Outstandings.....                                    |         |         |         | 213,706 | 262,382 | 315,249 |
| Net change.....                                      |         |         |         | 230     | -882    | -500    |
| Outstandings.....                                    |         |         |         | 4,552   | 3,670   | 3,170   |
| Net change.....                                      |         |         |         | 1,955   | 700     | 700     |
| Outstandings.....                                    |         |         |         | 4,300   | 5,000   | 5,000   |
| Less borrowing from other sponsored enterprises..... |         |         |         |         |         |         |
| Less borrowing from Federal sources: <sup>2</sup>    |         |         |         |         |         |         |
| SLMA from FFB.....                                   |         |         |         |         |         |         |

Table F-8. CREDIT ADVANCED AND RAISED BY GOVERNMENT-SPONSORED ENTERPRISES (in millions of dollars)—Continued

| Agency or program                                             | Disbursements  |                  |                  | Loans made     |                  |                  |
|---------------------------------------------------------------|----------------|------------------|------------------|----------------|------------------|------------------|
|                                                               | 1981<br>actual | 1982<br>estimate | 1983<br>estimate | 1981<br>actual | 1982<br>estimate | 1983<br>estimate |
| Total borrowing from the public and Government.....           |                |                  |                  | 36,732         | 48,858           | 53,367           |
| Less investments in Federal securities:                       |                |                  |                  | 204,854        | 253,712          | 307,079          |
| Investments in Federal securities.....                        |                |                  |                  | -464           | 566              | 225              |
| Less borrowings for guaranteed loans held as direct loans by: |                |                  |                  | 1,898          | 2,464            | 2,689            |
| Federal National Mortgage Association.....                    |                |                  |                  | 2,234          | 858              | 1,641            |
| Net change.....                                               |                |                  |                  | 39,792         | 40,650           | 42,291           |
| Outstandings.....                                             |                |                  |                  | 4              | 2                | 2                |
| Federal home loan banks.....                                  |                |                  |                  | 86             | 88               | 90               |
| Net change.....                                               |                |                  |                  | -119           | -66              | -115             |
| Outstandings.....                                             |                |                  |                  | 969            | 923              | 808              |
| Federal Home Loan Mortgage Corporation.....                   |                |                  |                  | 3              | *                | 4                |
| Net change.....                                               |                |                  |                  | 24             | 24               | 28               |
| Outstandings.....                                             |                |                  |                  | 268            | 903              | 1,543            |
| Farm Credit Administration.....                               |                |                  |                  | 268            | 1,171            | 2,713            |
| Net change.....                                               |                |                  |                  | 34,806         | 46,595           | 50,067           |
| Outstandings.....                                             |                |                  |                  | 161,798        | 208,392          | 258,460          |
| Student Loan Marketing Administration <sup>2</sup> .....      |                |                  |                  |                |                  |                  |
| Net change.....                                               |                |                  |                  |                |                  |                  |
| Outstandings.....                                             |                |                  |                  |                |                  |                  |
| Total credit raised.....                                      |                |                  |                  |                |                  |                  |

<sup>1</sup> All new transactions are loans purchased from FHLMC corporation accounts.

<sup>2</sup> Until recently, all SLMA lending has been financed through the FHB, and therefore has been counted above (table F-3). As direct loans, all SLMA loans are student loans guaranteed by the Federal Government. They have therefore been counted above (table F-6) as guaranteed loans. The first deduction eliminates the overlap of this table with the direct loan table. The second deduction removes the non-FHB financed remainder of SLMA, to eliminate overlap with the guaranteed loan table.

<sup>3</sup> Loans purchased at discount are recorded at their acquisition cost.

<sup>4</sup> These deductions include those borrowings involved in double-counting to give the adjusted total that is carried over to table F-7.

on passage of a reform of the FHLMC's charter, now pending in Congress. For FNMA, the figures shown do not include this new program; they do, however, reflect assumptions of expansion of FNMA in purchases of conventional mortgages, based on recovery in housing markets. Lending by the FHLB's is expected to fall sharply during 1982 and rise only slightly during 1983; the change results from improved access to funds by savings and loan institutions, which will reduce their need to borrow from the FHLB's. The activity of the other Government-sponsored enterprises is expected to remain relatively stable during 1982 and 1983. The FHLMC has been shifting its portfolio to include conventional mortgages only, leaving FNMA as the primary Government-sponsored enterprise holder of FHA and VA insured loans.

The economic assumptions on which the estimates rest are not necessarily the same as the administration's economic forecast, which is used for the budget. Special Analysis E discusses the borrowing of Government-sponsored enterprises in detail.

#### SUMMARY OF CREDIT ADVANCED AND RAISED UNDER FEDERAL AUSPICES

The credit advanced and raised under Federal auspices is summarized in table F-9. Credit advanced by direct and guaranteed loan programs reached \$54.0 billion in 1981. This lending level is estimated to increase to \$64.8 billion in 1982, and fall to \$60.8 billion in 1983. Loans by Government-sponsored enterprises will increase by \$17.7 and \$2.0 billion in 1982 and 1983, respectively. Outstanding credit advances to the public under Federal auspices are expected to total \$806.7 billion by the end of 1983.

Net credit raised under Federal auspices totaled \$142.1 billion net in 1981, and is expected to reach to \$206.0 billion in 1982, and \$204.7 billion in 1983.

#### TAX EXEMPT CREDIT

Since the adoption of the Federal income tax in 1913, interest on State and local government obligations generally has been exempt from Federal income tax.<sup>8</sup> The resulting subsidy to borrowers has historically been a saving of 30 to 35% of the interest rate.

The large interest subsidies provided through tax-exempt credit result in reallocation of credit resources to the assisted borrowers, just as do Federal direct loan and loan guarantee programs. Borrowers aided by tax exemption gain a position of preferred access to credit resources over competing taxable borrowers, just as do borrowers with other forms of Federal credit assistance, although in a different form.

<sup>8</sup> Tax exempt interest is one type of tax expenditure, the subject of Special Analysis G.

Table F-9. SUMMARY OF CREDIT ADVANCED AND CREDIT RAISED UNDER FEDERAL AUSPICES

(In billions of dollars)

|                                                                           | Net Change     |                  |                  | Outstanding    |                  |                  |
|---------------------------------------------------------------------------|----------------|------------------|------------------|----------------|------------------|------------------|
|                                                                           | 1981<br>actual | 1982<br>estimate | 1983<br>estimate | 1981<br>actual | 1982<br>estimate | 1983<br>estimate |
| <b>LENDING (Credit advanced)</b>                                          |                |                  |                  |                |                  |                  |
| Direct loans (from table F-3):                                            |                |                  |                  |                |                  |                  |
| On-budget agencies .....                                                  | 5.2            | 4.4              | 1.9              | 91.3           | 95.7             | 97.6             |
| Off-budget entities .....                                                 | 20.9           | 16.4             | 12.3             | 93.7           | 110.1            | 122.4            |
| Guaranteed loans (primary, from table F-6) .....                          | 28.0           | 44.0             | 46.6             | 309.1          | 353.1            | 399.7            |
| <b>Total Federal Government credit advanced<sup>1</sup></b> .....         | <b>54.0</b>    | <b>64.8</b>      | <b>60.8</b>      | <b>494.1</b>   | <b>558.9</b>     | <b>619.6</b>     |
| Loans by Government-sponsored enterprises (from table F-8) .....          | 32.4           | 50.1             | 53.1             | 182.3          | 232.4            | 285.5            |
| <b>Total, credit advanced to the public under Federal auspices</b> .....  | <b>86.5</b>    | <b>109.9</b>     | <b>113.6</b>     | <b>676.4</b>   | <b>791.3</b>     | <b>905.1</b>     |
| <b>BORROWING (Credit raised)</b>                                          |                |                  |                  |                |                  |                  |
| Federal borrowing from the public (from table E-1) .....                  | 79.3           | 115.4            | 108.0            | 794.4          | 913.4            | 1,021.4          |
| Guaranteed borrowing (same as guaranteed loans, above) <sup>1</sup> ..... | 28.0           | 44.0             | 46.6             | 309.1          | 353.1            | 399.7            |
| <b>Total Federal Government credit raised</b> .....                       | <b>107.3</b>   | <b>159.4</b>     | <b>154.6</b>     | <b>1,103.5</b> | <b>1,266.5</b>   | <b>1,421.1</b>   |
| Borrowing by Government-sponsored enterprises (from table F-8) .....      | 34.8           | 46.6             | 50.1             | 161.8          | 208.4            | 258.5            |
| <b>Total, credit raised from the public under Federal auspices</b> .....  | <b>142.1</b>   | <b>206.0</b>     | <b>204.7</b>     | <b>1,265.3</b> | <b>1,474.9</b>   | <b>1,679.6</b>   |

<sup>1</sup> Outstanding totals for direct and guaranteed loans exclude adjustments for deferred interest and transfers.

Table F-9 also shows the annual revenue loss to the Treasury from all tax-exempt bonds issued each year, the value of the long-term subsidy received by the borrower, and the present value of the tax loss from newly issued tax-exempt bonds. The annual tax loss reflects the amount of reduction in receipts resulting from the issuance of tax-exempt rather than taxable debt in that year. However, further tax losses and subsidies from tax-exempt financing occurs over the entire life of the security. Therefore, the present value of the total tax loss is substantially larger than the annual tax loss. The cost to the Treasury in lost tax revenues exceeds the financial benefits to the borrower, because the lender also shares in the subsidy. (See Special Analysis G for a discussion of revenue losses attributable to special provisions of the tax code, including tax-exempt bonds.)

During the first half century of income tax, this tax exemption was confined mainly to State and local governmental borrowing for public purposes. During the 1960's, however, tax exempt financing

was increasingly made available to certain private uses. These uses were curtailed by the 1968 and 1969 tax acts, but a number of exceptions were permitted that have allowed major growth of some private uses.

As table F-9 shows, the sale of tax-exempt bonds used for private purposes has increased greatly in recent years, while nominal State and local government new issues (adjusted for advanced refunding) for public purposes has remained relatively constant. Tax-exempt bonds issued for private purposes in five activities—owner occupied and rental housing, private nonprofit hospitals, pollution-control facilities, student loans, and business financed with “small-issue” IDB’s—will reach an estimated \$35.3 billion of new obligations in calendar year 1982, accounting for over half (56%) of the total long-term tax-exempt market. This compares with \$8.5 billion in new issues and 24% of the long-term tax-exempt market just 6 years earlier. The Omnibus Reconciliation Act of 1980 imposed major restrictions on the use of tax-exempt credit for owner-occupied housing, where the largest growth has occurred in recent years.

The “small-issue” exemption on industrial development bonds has the largest potential for growth. Forty States permit “small-issue” IDB’s, and at least 23 States have virtually no limits on the projects that they can finance. Industrial development bonds (IDB’s) are the principal form of obligations nominally issued by a State or local government to raise funds for private purposes. In almost all cases, a State or local authority that issues IDB’s is a conduit for providing tax-exempt financing to the private borrower. The authority lends its tax exempt status to the private borrower’s debt obligations, but is not responsible for the payment of interest and principal in the event of default.

The administration is proposing to reduce the use of private purpose tax-exempt bonds through several changes in the tax code. The administration proposes that assets financed with tax-exempt bonds issued after 1982 must be depreciated using the straight-line method over an extended recovery period. Tax-exempt financing will be limited to bonds that are publicly approved by local governments and which, after 1985, receive a financial contribution, commitment, or obligation from the local government. Small issue IDB’s will not be allowed for large businesses.

While direct and guaranteed loan programs are included in the credit budget, tax-exempt credit is not. Although tax-exempt financing has market effects and costs similar to other credit assistance, its current statutory structure gives it entitlement status and its use is unilaterally elected by the borrower. Effective control can only be achieved through legislated changes to the tax code.

Although tax-exempt credit is the most visible and direct form of tax expenditure influencing credit allocations, others not treated

here but described in Special Analysis G are also important. These include: (1) investment tax credits, (2) personal deductions for mortgage interest and property taxes, and (3) the all-savers certificate.

Table F-10. TAX EXEMPT FINANCING; PRESENT VALUE OF TAX SUBSIDIES TO NEW ISSUES

(In billions of dollars)

|                                                         | Calendar years <sup>1</sup> |       |       |       |       |       |       |       |       |       |       |       |       | Estimated |
|---------------------------------------------------------|-----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----------|
|                                                         | Actual                      |       |       |       |       |       |       |       |       |       |       |       |       |           |
|                                                         | 1971                        | 1972  | 1973  | 1974  | 1975  | 1976  | 1977  | 1978  | 1979  | 1980  | 1981  | 1982  | 1983  |           |
| Total new issues, long-term tax exemptions.....         | 24.9                        | 23.6  | 23.9  | 24.2  | 30.5  | 34.9  | 46.8  | 49.1  | 48.1  | 53.7  | 53.7  | 63.1  | 69.4  |           |
| State and local government uses <sup>a</sup> .....      | (1)                         | (1)   | (1)   | (1)   | (1)   | 26.4  | 34.4  | 34.2  | 23.3  | 25.6  | 28.0  | 27.8  | 29.2  |           |
| Private purpose tax-exempts.....                        | (1)                         | (1)   | (1)   | (1)   | (1)   | 8.5   | 12.4  | 14.9  | 24.8  | 28.1  | 25.7  | 35.3  | 40.2  |           |
| Housing bonds.....                                      | (1)                         | (1)   | (1)   | (1)   | (1)   | 3.0   | 3.8   | 5.9   | 12.2  | 13.5  | 6.9   | 13.2  | 14.5  |           |
| Private hospitals.....                                  | (1)                         | (1)   | (1)   | (1)   | (1)   | 1.9   | 3.3   | 2.2   | 2.4   | 2.8   | 3.5   | 3.9   | 4.2   |           |
| Student loans.....                                      | (1)                         | (1)   | (1)   | (1)   | (1)   | 0.1   | 0.1   | 0.3   | 0.6   | 0.5   | 1.0   | 1.4   | 1.8   |           |
| Pollution control.....                                  | (1)                         | (1)   | (1)   | (1)   | (1)   | 2.1   | 3.0   | 2.8   | 2.5   | 2.5   | 3.8   | 4.2   | 4.6   |           |
| Other private business (IDBs).....                      | (1)                         | (1)   | (1)   | (1)   | (1)   | 1.4   | 2.2   | 3.5   | 7.1   | 8.8   | 10.5  | 12.6  | 15.1  |           |
| Subsidy estimates (new issues only): <sup>a</sup>       |                             |       |       |       |       |       |       |       |       |       |       |       |       |           |
| All new issues:                                         |                             |       |       |       |       |       |       |       |       |       |       |       |       |           |
| Annual tax loss, all new issues.....                    | 0.8                         | 0.7   | 0.7   | 0.9   | 1.1   | 1.2   | 1.6   | 1.8   | 1.9   | 2.7   | 3.2   | 3.7   | 3.8   |           |
| Present value, tax loss.....                            | 7.6                         | 7.1   | 7.3   | 7.8   | 10.0  | 11.2  | 14.8  | 16.1  | 16.3  | 19.6  | 20.5  | 23.9  | 25.9  |           |
| Present value, borrower benefit.....                    | 5.3                         | 5.1   | 5.7   | 5.9   | 6.5   | 8.8   | 12.4  | 14.1  | 15.0  | 16.0  | 11.5  | 16.5  | 19.0  |           |
| Private purpose issues only:                            |                             |       |       |       |       |       |       |       |       |       |       |       |       |           |
| Present value, private use tax loss.....                | (1)                         | (1)   | (1)   | (1)   | (1)   | 2.7   | 3.9   | 4.9   | 8.4   | 10.3  | 9.8   | 13.4  | 15.0  |           |
| <b>MEMORANDUM</b>                                       |                             |       |       |       |       |       |       |       |       |       |       |       |       |           |
| AAA State and local bond yields (Moody's), percent..... | 5.22                        | 5.04  | 4.99  | 5.86  | 6.42  | 5.66  | 5.20  | 5.52  | 5.92  | 7.85  | 10.83 | 9.78  | 9.03  |           |
| AAA corporate bond yields (Moody's), percent.....       | 7.39                        | 7.21  | 7.44  | 8.57  | 8.83  | 8.43  | 8.02  | 8.73  | 9.63  | 11.94 | 14.17 | 13.78 | 13.03 |           |
| Outstanding, long-term tax-exempt issues.....           | 146.1                       | 160.7 | 175.1 | 188.9 | 205.3 | 225.0 | 249.8 | 275.4 | 296.4 | 320.4 | 341.5 | 368.3 | 397.3 |           |
| Outstanding, all tax-exempt issues.....                 | 161.8                       | 176.5 | 191.2 | 207.7 | 223.8 | 239.5 | 261.4 | 287.5 | 309.3 | 336.2 | 363.2 | 395.4 | 431.4 |           |

<sup>1</sup> 1976-80 estimates of tax-exempt volume and distribution and 1981-83 projections are by the Department of the Treasury, Office of Tax Analysis. Estimates are unavailable for private purpose tax-exempts before 1976.<sup>a</sup> Includes some private purpose tax-exempt debt, and advance refunding, that could not be identified or classified.<sup>b</sup> Assumed: Average marginal tax rate = 42; taxable securities of comparable quality; average maturity = 18 years; discount rate = Aaa corporate bond yield.

Sources: Federal Reserve Board, Public Securities Association; subsidy estimates by Office of Management and Budget.

### INTEREST SUBSIDIES

Federal credit programs provide credit to selected groups on more favorable terms than would otherwise be available in private credit markets. The largest subsidy is usually in the form of a lower interest rate, although other subsidies, such as longer maturities, are commonly offered as well. For direct loans the subsidy arises through formulas in law setting interest rates at a fixed ceiling or tying them to fluctuations in some other rate. While risk is a crucial factor in determining private interest rates, it may be largely ignored in setting rates for direct loan programs. For guaranteed loans, the subsidy usually occurs because the guarantee removes all risk of default facing the lender; the lender is therefore willing to lend to the guaranteed borrower at lower rates that do not include a premium for risk.

This section presents estimates of the subsidies provided through lower interest rates for Federal direct loan programs and one guaranteed loan program. The total interest subsidy is measured by estimating the difference between the interest payments on a federally assisted loan and those the borrower would otherwise have paid in the private market. The reduced interest rate lowers payments throughout the life of a loan. The measurement of the interest subsidy therefore requires that the series of annual interest payment reductions be converted into a single discounted present value. This capitalizes all future payments and allows comparison of the value of the federally assisted and wholly private loan through a single number.

There is no generally accepted method for quantifying the present value of interest subsidies in Federal credit programs. Measurement of the total subsidy depends on an accurate assessment of what the wholly private interest rate would have been. For many Federal credit programs this private rate is impossible to find, either because the risk of a Government-assisted loan is unknown or because comparable loans are not made in the private market. Federally assisted borrowers and projects are frequently riskier than the private market would accept under any terms. To make a rough estimate of the subsidy without complete private rate information, two simplified approaches are used, reflecting, first, the value of the subsidy to borrowers, and, second, the cost to the Government.

The first approach compares Federal credit program rates against aggregate data on private sector rates for the most comparable loans. It is intended to show the value of the subsidy to the borrower. This approach relies on broad categories of loan types rather than detailed analysis of individual program characteristics

(see table 11a).<sup>11</sup> For example, the subsidies on Rural Electrification Administration loans are computed by comparing the average REA interest rates against rates for Aaa utility bonds. The private rates are proxies for the actual private rate because they are calculated and compared at such a high level of aggregation. For some programs the rates shown here are better proxies than for others.

The second approach applies a single interest rate to all Federal credit programs: the 10-year Treasury bond rate averaged over the last 6 months (see table F-11b). This calculation, in contrast to the calculations for table 11a, is intended to estimate the cost to the Federal Government of the interest subsidies. The estimates in table F-11b are less than the estimates in table F-11a in large part because the Government can borrow to fund its lending more cheaply than can private lending institutions. Thus, the value of the subsidy to the borrower is larger than the cost of the loan to the Government. Remaining costs of the subsidy fall on the economy at large in the form of upward interest rate pressure for unsubsidized borrowers.

The subsidy estimates are intended to provide a picture of the order of magnitude of interest subsidies, and to suggest the relative distribution of subsidies among the programs. Each of the two methods quantifies only part of the total subsidy provided in Federal credit programs.

The measurement of interest subsidies currently includes:

- the effect of the Federal Government making a direct loan at an interest rate lower than a normal private borrower would have to pay on a similar loan in the private market;
- the effect of the Federal Government paying part of the interest costs of a private loan.

The measurement of interest subsidies does *not* include:

- the value of the Government's assumption of risk on a direct loan or the value of a loan guarantee;
- the effect of making credit available to unusually risky borrowers, under unusually risky terms (such as a higher loan to value ratio or a long maturity), or for unusually risky ventures; i.e., the effect of not charging premiums that would be adequate to cover probable losses on direct or guaranteed loans;
- the effect of not charging fees or premiums that would cover the administrative costs of the program.

Thus, the estimates of interest subsidies only measure part of the total subsidy that is provided in Federal credit programs. Since the amount of interest rate reduction resulting from the Government's assumption of risk on guaranteed loans is not measured, interest subsidies are calculated only for guaranteed student loans, where

<sup>11</sup> Private sector rates are computed from data published in the Federal Reserve Bulletin.

the Federal Government directly contributes all or part of the interest payments on the loan.

*The sensitivity of interest subsidy estimates to assumptions.*—Estimates of interest subsidy in tables F-11a and F-11b are highly sensitive to changes in assumptions. A single percentage point change in the assumed private sector interest rate can substantially change the present value of the interest subsidy. For instance, if the rate on a \$100 million direct loan is 10% and the average private sector interest rate on loans in the same category is also 10% (assuming that the discount rate is the same as the private market interest rate), then there is no explicit interest subsidy. If, however, the private market interest rate is assumed to be 12% then the present value of the interest subsidy is \$15 million, and if the interest rate is assumed to be 15% then the present value of the interest subsidy increases to \$31 million.

The present value will also change dramatically depending on the maturity and amortization plan. For instance, the present value of the subsidy on a 10%, \$100 million loan over 30 years at a 15% discount rate is \$31 million. This subsidy would be only \$18 million if the maturity were 10 years. With a 30-year maturity and a 5-year grace period the subsidy would be \$66 million, more than twice the subsidy of a nondeferred loan.

Since the estimates are so sensitive to the assumptions they are likely to change considerably from year to year, regardless of policy changes. Nevertheless, the estimates of the interest subsidies in credit programs for 1983 can be used to indicate which programs are more deeply subsidized than others, and the general magnitude of the subsidies.

Table F-11a. INTEREST SUBSIDY VALUES FOR NEWLY COMMITTED FEDERAL CREDIT ASSISTANCE

(In millions of dollars)

| Agency and programs                  | Average loan terms |       | Obligations or commitments |       |       | Market rate discount |                                 |       |       |
|--------------------------------------|--------------------|-------|----------------------------|-------|-------|----------------------|---------------------------------|-------|-------|
|                                      | Percent            | Years | 1981                       | 1982  | 1983  | Market rate          | Present value of subsidy stream |       |       |
|                                      |                    |       |                            |       |       |                      | 1981                            | 1982  | 1983  |
| <b>DIRECT LOANS</b>                  |                    |       |                            |       |       |                      |                                 |       |       |
| Funds Appropriated to the President: |                    |       |                            |       |       |                      |                                 |       |       |
| Economic support fund                | 2.8                | 33.2  | 274                        | 216   | 895   | 16.8                 | 199                             | 157   | 651   |
| Foreign military sales credit        | 12.0               | 8.0   | 664                        | 920   | 1,919 | 16.8                 | 96                              | 133   | 278   |
| Functional development assistance    | 2.5                | 36.5  | 387                        | 389   | 392   | 16.8                 | 291                             | 292   | 295   |
| Agriculture:                         |                    |       |                            |       |       |                      |                                 |       |       |
| Price support and related programs   | 13.1               | 0.7   | 5,872                      | 8,600 | 6,600 | 19.5                 | 270                             | 395   | 303   |
| Agricultural credit                  | 9.0                | 7.0   | 9,229                      | 8,196 | 7,218 | 18.9                 | 2,329                           | 2,069 | 1,822 |
| Rural housing                        | 3.6                | 37.2  | 6,079                      | 6,371 | 3,895 | 15.1                 | 4,126                           | 4,324 | 2,644 |
| Farm export credits—Public Law 480   | 2.3                | 30.0  | 821                        | 754   | 767   | 16.8                 | 597                             | 548   | 558   |
| Rural development                    | 7.8                | 40.0  | 1,669                      | 1,046 | 948   | 20.3                 | 999                             | 626   | 567   |
| Rural telephone bank                 | 12.3               | 30.0  | 160                        | 185   | 185   | 17.1                 | 43                              | 50    | 50    |
| Rural electric and telephone         | 4.7                | 35.0  | 1,117                      | 1,100 | 700   | 17.1                 | 736                             | 725   | 461   |
| Commerce                             | 11.2               | 25.3  | 132                        | 44    |       | 16.8                 | 40                              | 13    |       |
| Health and Human Services:           |                    |       |                            |       |       |                      |                                 |       |       |
| Health maintenance organizations     | 12.0               | 20.0  | 27                         | 41    | 38    | 20.6                 | 10                              | 15    | 14    |
| Other health programs                | 6.9                | 13.4  | 30                         | 13    | 1     | 18.0                 | 13                              | 5     |       |
| Housing and Urban Development:       |                    |       |                            |       |       |                      |                                 |       |       |
| Federal Housing Administration       | 10.0               | 20.0  | 414                        | 383   | 311   | 15.1                 | 112                             | 104   | 84    |
| Government National Mortgage Assn    | 7.5                | 20.0  | 1,836                      | 1,993 | 6     | 15.1                 | 718                             | 779   | 2     |
| Housing for elderly and handicapped  | 9.0                | 40.0  | 873                        | 819   | 453   | 15.1                 | 339                             | 318   | 176   |
| Housing rehabilitation               | 3.0                | 20.0  | 85                         | 68    |       | 15.1                 | 49                              | 40    |       |
| Low rent public housing              | 12.3               | 0.3   | 2,196                      | 1,500 | 1,000 | 15.1                 | 10                              | 7     | 5     |
| Interior:                            |                    |       |                            |       |       |                      |                                 |       |       |
| Water resources                      | 9.4                | 35.0  | 25                         | 27    | 39    | 11.6                 | 4                               | 5     | 7     |
| Indian loan funds                    | 14.5               | 30.0  | 11                         | 17    | 22    | 20.6                 | 3                               | 5     | 6     |

Table F-11a. INTEREST SUBSIDY VALUES FOR NEWLY COMMITTED FEDERAL CREDIT ASSISTANCE—Continued

(in millions of dollars)

| Agency and programs                             | Average loan terms |       | Obligations or commitments |               |               | Market rate discount |                                |               |               |
|-------------------------------------------------|--------------------|-------|----------------------------|---------------|---------------|----------------------|--------------------------------|---------------|---------------|
|                                                 | Percent            | Years | 1981                       | 1982          | 1983          | Market rate          | Percent value of subsidy shown |               |               |
|                                                 |                    |       |                            |               |               |                      | 1981                           | 1982          | 1983          |
| Bonneville Power Administration                 | 1.3                | 19.5  | 2                          | 40            | 62            | 17.1                 | 1                              | 27            | 42            |
| Transportation:                                 |                    |       |                            |               |               |                      |                                |               |               |
| Highway programs <sup>1</sup>                   | 8.4                | 40.0  | 13                         | 19            | 32            | 11.6                 | 3                              | 5             | 8             |
| Rail programs                                   | 4.9                | 20.6  | 39                         | 143           | 2             | 16.8                 | 22                             | 79            | 1             |
| Treasury:                                       |                    |       |                            |               |               |                      |                                |               |               |
| College housing                                 | 3.0                | 30.0  | 138                        | 344           | 100           | 15.1                 | 92                             | 230           | 67            |
| Veterans Administration:                        |                    |       |                            |               |               |                      |                                |               |               |
| Housing programs                                | 14.6               | 29.0  | 739                        | 757           | 781           | 15.1                 | 22                             | 23            | 23            |
| Insurance policy loans <sup>1</sup>             | 6.9                | 40.0  | 241                        | 120           | 153           | 19.7                 | 151                            | 75            | 96            |
| Education loans                                 | 8.3                | 10.0  | 7                          | 3             | 2             | 18.0                 | 2                              | 1             | 1             |
| District of Columbia Education Foundation:      | 9.2                | 36.0  | 134                        | 145           | 145           | 13.2                 | 36                             | 39            | 39            |
| Student financial assistance                    | 1.7                | 13.0  | 183                        | 179           |               | 18.0                 | 104                            | 102           |               |
| Student loan insurance                          | 9.0                | 12.0  | 238                        | 410           | 548           | 18.0                 | 79                             | 135           | 181           |
| Export-Import Bank                              | 10.5               | 11.0  | 5,431                      | 4,400         | 3,830         | 20.6                 | 1,808                          | 1,465         | 1,275         |
| NCUA                                            | 14.0               | 2.0   | 76                         | 390           | 478           | 19.7                 | 4                              | 21            | 25            |
| Small Business Administration:                  |                    |       |                            |               |               |                      |                                |               |               |
| Business loans                                  | 15.0               | 8.5   | 871                        | 712           | 554           | 20.6                 | 144                            | 117           | 91            |
| Disaster loans                                  | 10.5               | 9.0   | 1,522                      | 640           | 440           | 20.6                 | 452                            | 190           | 131           |
| Tennessee Valley Authority                      | 3.7                | 0.9   | 102                        | 83            | 81            | 17.1                 | 6                              | 5             | 5             |
| Other agencies and programs                     | 11.0               | 5.1   | 497                        | 80            | 42            | 16.8                 | 61                             | 10            | 5             |
| Federal Financing Bank:                         |                    |       |                            |               |               |                      |                                |               |               |
| Disbursement of loans otherwise guaranteed      | 15.1               | 4.8   | 15,060                     | 15,204        | 16,355        | 16.8                 | 531                            | 536           | 576           |
| <b>Total—Direct loan subsidies <sup>2</sup></b> |                    |       | <b>57,194</b>              | <b>56,351</b> | <b>48,994</b> |                      | <b>14,502</b>                  | <b>13,678</b> | <b>10,499</b> |
| <b>GUARANTEED LOANS</b>                         |                    |       |                            |               |               |                      |                                |               |               |
| Education Foundation:                           |                    |       |                            |               |               |                      |                                |               |               |
| Student loan insurance                          | 9.0                | 12.0  | 7,762                      | 9,500         | 10,300        | 18.0                 | 2,563                          | 3,137         | 3,401         |
| <b>Grand total</b>                              |                    |       | <b>64,956</b>              | <b>65,851</b> | <b>59,294</b> |                      | <b>17,065</b>                  | <b>16,817</b> | <b>13,900</b> |

\* There is no specified maturity period. Forty years is used as a proxy for an indefinite maturity.  
 \* Only explicit subsidies are represented; implicit subsidy from the Government's assumption of risks are not included. (See text)

Table F-11b. INTEREST SUBSIDY COSTS FOR NEWLY COMMITTED FEDERAL CREDIT ASSISTANCE

(In millions of dollars)

| Agency and programs                  | Average loan terms |       | Obligations or commitments |       |       | 15,000 discount                  |                                 |       |       |
|--------------------------------------|--------------------|-------|----------------------------|-------|-------|----------------------------------|---------------------------------|-------|-------|
|                                      | Percent            | Years | 1981                       | 1982  | 1983  | Annual subsidy per \$100 million | Present value of subsidy stream |       |       |
|                                      |                    |       |                            |       |       |                                  | 1981                            | 1982  | 1983  |
| <b>DIRECT LOANS</b>                  |                    |       |                            |       |       |                                  |                                 |       |       |
| Funds Appropriated to the President: |                    |       |                            |       |       |                                  |                                 |       |       |
| Economic support fund                | 2.8                | 33.2  | 274                        | 216   | 895   | 10.5                             | 191                             | 150   | 623   |
| Foreign military sales credit        | 12.0               | 8.0   | 664                        | 920   | 1,919 | 2.0                              | 63                              | 87    | 181   |
| Functional development assistance    | 2.5                | 36.5  | 387                        | 380   | 392   | 10.9                             | 280                             | 281   | 283   |
| Agriculture:                         |                    |       |                            |       |       |                                  |                                 |       |       |
| Price support and related programs   | 13.1               | 0.7   | 5,872                      | 8,600 | 6,600 | 2.3                              | 82                              | 126   | 92    |
| Agricultural credit                  | 9.0                | 7.0   | 9,229                      | 8,196 | 7,218 | 3.8                              | 1,524                           | 1,354 | 1,182 |
| Rural housing                        | 3.6                | 37.2  | 6,079                      | 6,371 | 3,895 | 10.2                             | 4,113                           | 4,311 | 2,635 |
| Farm export credits—Public Law 480   | 2.3                | 30.0  | 821                        | 754   | 767   | 10.6                             | 571                             | 524   | 534   |
| Rural development                    | 7.8                | 40.0  | 1,688                      | 1,046 | 948   | 6.9                              | 764                             | 479   | 434   |
| Rural telephone bank                 | 12.3               | 30.0  | 160                        | 185   | 185   | 2.6                              | 27                              | 32    | 32    |
| Rural electric and telephone         | 4.7                | 35.0  | 1,117                      | 1,100 | 700   | 9.2                              | 684                             | 673   | 429   |
| Commerce                             | 11.2               | 25.3  | 132                        | 44    |       | 3.4                              | 29                              | 10    |       |
| Health and Human Services:           |                    |       |                            |       |       |                                  |                                 |       |       |
| Health maintenance organizations     | 12.0               | 20.0  | 27                         | 41    | 38    | 2.6                              | 4                               | 7     | 6     |
| Other health programs                | 6.9                | 13.4  | 30                         | 13    | 1     | 5.9                              | 10                              | 4     |       |
| Housing and Urban Development:       |                    |       |                            |       |       |                                  |                                 |       |       |
| Federal Housing Administration       | 10.0               | 20.0  | 414                        | 383   | 311   | 4.2                              | 111                             | 102   | 83    |
| Government National Mortgage Assn.   | 7.5                | 20.0  | 1,836                      | 1,993 | 6     | 6.1                              | 712                             | 773   | 2     |
| Housing for elderly and handicapped  | 9.0                | 40.0  | 673                        | 819   | 453   | 5.8                              | 336                             | 315   | 174   |
| Housing rehabilitation               | 3.0                | 20.0  | 85                         | 68    |       | 9.1                              | 49                              | 38    |       |
| Low rent public housing              | 12.3               | 0.3   | 2,196                      | 1,500 | 1,000 | 1.8                              | 10                              | 7     | 4     |

Table F-11b. INTEREST SUBSIDY COSTS FOR NEWLY COMMITTED FEDERAL CREDIT ASSISTANCE—  
Continued

(In millions of dollars)

| Agency and programs                                                    | Average loan terms |       | Obligations or commitments |               |               | 15,000 discount                  |                                 |               |              |
|------------------------------------------------------------------------|--------------------|-------|----------------------------|---------------|---------------|----------------------------------|---------------------------------|---------------|--------------|
|                                                                        | Percent            | Years | 1981                       | 1982          | 1983          | Annual subsidy per \$100 million | Present value of subsidy stream |               |              |
|                                                                        |                    |       |                            |               |               |                                  | 1981                            | 1982          | 1983         |
| Interior:                                                              |                    |       |                            |               |               |                                  |                                 |               |              |
| Water resources.....                                                   | 9.4                | 35.0  | 25                         | 27            | 39            | 5.3                              | 9                               | 10            | 14           |
| Indian loan funds.....                                                 | 14.5               | 30.0  | 11                         | 17            | 22            | 0.5                              | *                               | 1             | 1            |
| Bonneville Power Administration.....                                   | 1.3                | 19.5  | 2                          | 40            | 62            | 10.1                             | 1                               | 25            | 39           |
| Transportation:                                                        |                    |       |                            |               |               |                                  |                                 |               |              |
| Highway programs <sup>1</sup> .....                                    | 8.4                | 40.0  | 13                         | 19            | 32            | 6.4                              | 5                               | 8             | 14           |
| Rail programs.....                                                     | 4.9                | 20.6  | 39                         | 143           | 2             | 8.0                              | 20                              | 73            | 1            |
| Treasury:                                                              |                    |       |                            |               |               |                                  |                                 |               |              |
| College housing.....                                                   | 3.0                | 30.0  | 138                        | 344           | 100           | 10.1                             | 92                              | 229           | 67           |
| Veterans Administration:                                               |                    |       |                            |               |               |                                  |                                 |               |              |
| Housing programs.....                                                  | 14.6               | 29.0  | 739                        | 757           | 781           | 0.4                              | 18                              | 18            | 19           |
| Insurance policy loans <sup>1</sup> .....                              | 6.9                | 40.0  | 241                        | 120           | 153           | 7.6                              | 123                             | 61            | 78           |
| Education loans.....                                                   | 8.3                | 10.0  | 7                          | 3             | 2             | 4.6                              | 2                               | 1             | *            |
| District of Columbia.....                                              | 9.2                | 30.0  | 134                        | 145           | 145           | 5.3                              | 47                              | 51            | 51           |
| Export-Import Bank.....                                                | 10.5               | 11.0  | 5,431                      | 4,400         | 3,830         | 3.2                              | 947                             | 767           | 668          |
| Foundation for Education Assistance:                                   |                    |       |                            |               |               |                                  |                                 |               |              |
| Student financial assistance.....                                      | 1.7                | 13.0  | 183                        | 179           |               | 8.9                              | 93                              | 91            |              |
| Student loan insurance.....                                            | 9.0                | 12.0  | 238                        | 410           | 548           | 4.4                              | 58                              | 99            | 132          |
| NCUA.....                                                              | 14.0               | 2.0   | 76                         | 390           | 478           | 0.5                              | 1                               | 4             | 4            |
| Small Business Administration:                                         |                    |       |                            |               |               |                                  |                                 |               |              |
| Business loans.....                                                    | 15.0               | 8.5   | 871                        | 712           | 554           |                                  |                                 |               |              |
| Disaster loans.....                                                    | 10.5               | 9.0   | 1,522                      | 640           | 440           | 3.1                              | 231                             | 97            | 67           |
| Tennessee Valley Authority.....                                        | 3.7                | 0.9   | 102                        | 83            | 81            | 6.3                              | 5                               | 4             | 4            |
| Other agencies and programs.....                                       | 11.0               | 5.1   | 497                        | 80            | 42            | 2.4                              | 43                              | 7             | 4            |
| Federal Financing Bank acquisitions of loans otherwise guaranteed..... | 15.1               | 4.8   | 15,060                     | 15,204        | 16,355        |                                  |                                 |               |              |
| <b>Total—direct loan subsidies<sup>2</sup></b> .....                   |                    |       | <b>57,194</b>              | <b>56,351</b> | <b>48,994</b> |                                  | <b>11,255</b>                   | <b>10,814</b> | <b>7,867</b> |
| <b>GUARANTEED LOANS</b>                                                |                    |       |                            |               |               |                                  |                                 |               |              |
| Education Foundation: Student loan insurance.....                      | 9.0                | 12.0  | 7,762                      | 9,500         | 10,300        | 4.4                              | 1,876                           | 2,297         | 2,490        |

Table F-11b. INTEREST SUBSIDY COSTS FOR NEWLY COMMITTED FEDERAL CREDIT ASSISTANCE—  
Continued

(In millions of dollars)

| Agency and programs | Average loan terms |       | Obligations or commitments |        |        | 15,000 discount                  |                                 |        |        |
|---------------------|--------------------|-------|----------------------------|--------|--------|----------------------------------|---------------------------------|--------|--------|
|                     | Percent            | Years | 1981                       | 1982   | 1983   | Annual subsidy per \$100 million | Present value of subsidy stream |        |        |
|                     |                    |       |                            |        |        |                                  | 1981                            | 1982   | 1983   |
| Grand total.....    |                    |       | 64,956                     | 65,851 | 59,294 |                                  | 13,131                          | 13,111 | 10,357 |

<sup>1</sup>There is no specified maturity period. Forty years is used as a proxy for an indefinite maturity.

<sup>2</sup>Only explicit subsidies are represented; implicit subsidies arising from the Government's assumption of risks are not included. (See text).

### PROPOSED LEGISLATION

The administration is seeking to reduce the amount of direct loans and loan guarantees issued by the Federal Government. Its primary method for accomplishing this goal is to reduce the appropriation bill limitations on credit programs, and in many cases to terminate the programs. The proposed new levels of activity are displayed in tables F-3 and F-6. For several programs expected to continue operation, changes in authorizing law are being sought that would reduce subsidies and Federal costs. This section outlines the legislative proposals.

For the Guaranteed Student Loan program the administration is submitting legislation to restrict eligibility for subsidized loans and reduce the subsidy. The proposed changes include: raising the origination fee from 5 to 10%, extending the needs analysis to students at all income levels, allowing graduate and professional students to borrow only under the less subsidized auxiliary loan program (and increasing their borrowing limits), and discontinuing special allowance interest subsidy payments in the third year following a student's graduation or withdrawal from school.

The Federal Housing Administration's (FHA) mortgage insurance programs are the subject of legislation proposed to keep the FHA abreast of recent changes in housing finance and to reflect an expanding role for private mortgage insurers. The legislation would allow FHA to insure variable rate and shared appreciation mortgages for single family homes, and would expand the graduated payment program to multi-family mortgages. At the same time, the program would be targeted to home buyers not adequately served by private insurers, such as first-time home buyers. An additional set of provisions (such as eliminating ceilings on the interest rates and points charged, and requiring that premiums be paid at the time of purchase rather than throughout the life of the mortgage) would assist FHA in achieving efficiency. A 0.5% origination fee is proposed for the Veterans Administration mortgage insurance program and an increase in the commitment fee is proposed for the

FNMA mortgage-backed securities program, which provides a secondary market for FHA and VA guaranteed mortgages.

The administration is also proposing changes in the eligibility rules and loan terms of the Farmers Home Administration's disaster loan program, including discontinuing loans to creditworthy borrowers, raising the interest rate on most of its loans from 8% to the cost of Treasury borrowing, and lowering the maximum loan size from \$100,000 to \$300,000.

The District of Columbia is preparing to turn fully to the private market for all its borrowing. Legislation is now being proposed to end the District's authority to borrow short term from the Federal Government.

#### RECENTLY ENACTED LEGISLATION

This section summarizes legislation affecting Federal credit programs enacted during the first session of the 97th Congress.

The Omnibus Budget Reconciliation Act of 1981 was the single most important piece of credit program legislation enacted in 1981. The act set limits on the credit to be extended by the Farmers Home Administration, the Export-Import Bank, and the Small Business Administration, and for the food for peace program, the District of Columbia and the GNMA tandem plan. It also changed the operation of several credit programs.

The Farmers Home Administration program standards and loan terms were revised as follows:

- Water and waste disposal and community facilities loan interest rates and maturities must be comparable to similar municipal securities, except that a 5% rate is allowed if the loan enables health or sanitation standards to be met in certain areas.
- Farm ownership and operating loans on prime farmland will have interest rates increased by 2%. For limited resource borrowers, the interest rate is reduced by 3% below the FmHA rates for comparable loans to other borrowers.
- Emergency loans to cover losses suffered will be at market rates if the borrower is creditworthy and at 8% if the borrower cannot obtain credit elsewhere.

Interest rates for Rural Electrification Administration direct loans were set at 5%, except for utilities facing "extreme financial hardship" a 2% rate was allowed. The Federal Financing Bank was also directed to provide loans to any borrower receiving an REA guarantee.

Steps were mandated to make the National Consumer Cooperative Bank a fully private lending institution, including redemption of all Federal Government equity by December 31, 1981, and new procedures for selecting the board of directors. After that date, new

obligations of the Bank will not be backed in any way by the Federal Government. The Bank will continue to serve the cooperative organizations it was originally designated to serve.

For the guaranteed student loan program a needs test was instituted for students with family incomes over \$30,000, restricting the amount of loan to remaining need after expected family contributions are estimated. Interest rates on the auxiliary loan program for parents and graduate students were set at 12% or 14%, depending on Treasury bill interest rates. Finally, a 5% origination fee was established to be paid through the lenders to the Federal Government.

The act made changes in the business and disaster loan programs of the Small Business Administration. For disaster loans:

- Interest rates on loans to creditworthy businesses were raised from the Government's cost of money to market levels.
- The maximum amount of loss coverage for a business was reduced from 100 to 85%.
- Interest rates on loans to noncreditworthy businesses and homeowners were raised from 5% and 3%, respectively, to 8% and one-half of the Government's cost of money (but not to exceed 8%).
- Authorization for nonphysical disaster loans was ended.

For business loans, interest rates on direct loans (except for a rate of 3% on loans to the handicapped) have been raised to the Government's cost of money.

Minor changes in the act included:

- Standards were set for federally insured health student loans, including limits on annual loans of \$20,000 and on total indebtedness of \$80,000 for medical students. Repayment terms were also set.
- CCC Farm Storage Facility Loans were given discretionary rather than entitlement status.
- The authority of local public housing agencies to borrow from the Federal Financing Bank with HUD backing was limited to \$400 million.
- The methods for Federal Housing Administration foreclosure on defaulted mortgages were reformed to make the foreclosure process shorter and less costly to FHA.
- The authority of the Student Loan Marketing Association to provide a secondary market for all types of insured student loans, including health profession loans, was expanded.
- The Rural Development Loan Fund was transferred to the Department of Health and Human Services from the Community Services Administration.

—The Health Maintenance Organization loan program was given flexibility to adjust interest rates to keep them comparable to Treasury interest rates.

Several other recently enacted bills affected credit programs.

The Overseas Private Investment Corporation Amendments Act of 1981 extended OPIC's authority to issue investment insurance, loans and loan guarantees through 1985. The act allows OPIC to operate in countries with per capita incomes up to \$2,950 in 1979 dollars. The previous maximum had been \$1,000 in 1975 dollars.

The District of Columbia Bond Amendments of 1981 gave the District of Columbia additional debt management powers and flexibility to allow it to begin borrowing in the private bond market, rather than from the Federal Government. For example, the act authorizes the District to secure general obligation bonds by creating a security interest in specified District revenues, such as certain tax receipts.

The Agriculture and Food Act of 1981 extended the Commodity Credit Corporation (CCC) price support programs, the Public Law 480 food export program and the rural development programs of the Farmers Home Administration for 4 years. The CCC was given greater flexibility to raise loan interest rates and other terms above minimum levels, in order to reduce subsidies. The act established an export credit revolving fund for use by CCC in carrying out a wide variety of direct loan export activities. This fund, however, has not yet received an appropriation.

The International Security and Development Cooperation Act of 1981 extends through 1983 the authorization for the economic support fund, the foreign military sales credit program, the functional development assistance programs of the Agency for International Development, as well as several noncredit programs. The programs are authorized without major changes in operations. A number of provisions regulate the amount and type of aid to be provided to specific countries.

The Mortgage Purchase Amendments of 1981 remove certain limitations on the mortgage loan purchase authority of the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA), allowing FHLMC and FNMA to purchase a larger amount of existing conventional mortgages from thrift institutions. The purchase activity is intended to enable residential lenders to replace older mortgages, frequently carrying relatively low interest yields, with more highly liquid and higher yielding securities. The act also authorizes FHLMC to purchase loans from the National Credit Union Administration (NCUA) and the Federal Deposit Insurance Corporation (FDIC). This provision is intended to assist the FDIC and the NCUA manage their loan portfolios more efficiently.